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March/Spring 2001

ExportWise

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A Force in Food:

Ted Bilyea, President of Maple Leaf Foods International, shares his unique perspective on the challenges of running a world-class exporting operation 12

Public Interests *vs.* Private Interests

It seems to me that we all too often characterize public interests and private interests as completely different realities, or "sides." This may be especially true when viewed from a single-issue perspective. And yet, if globalization has taught us anything, has it not taught us that we need to stop thinking in terms of "sides," and instead recognize our seamless reality ... from national borders and economies, to food supplies and the air we breathe?

Canada needs a high-performing private sector and a high performing public sector if we are to maintain our current level of prosperity.

A. Ian Gillespie
President and Chief Executive Officer

Quite simply, when globalization is increasing both opportunities and competition, when Canadian companies are up against the very best in the world, we cannot expect to be competitive if both the private and public sectors are not pulling their weight. Canada needs a high-performing private sector and a high-performing public sector if we are to maintain our current level of prosperity.

EDC recognizes this as our greatest challenge: EDC must continually work towards maintaining a seamless balance between its role as both a public institution – Canada's official export credit agency – and a commercially run financial institution. By combining the best of public policy with the best of private practice, the commercial export credit agency fulfills public policy objectives that the private sector, mandated by profit maximization, cannot.

It can take on higher levels of risk in a greater number of markets, including developing markets. In 2000, EDC increased its volume of business in developing countries – a key strategic focus – by 7 per cent to $10.5 billion.

It can provide higher levels of assistance to market segments not entirely serviced by the private sector, such as smaller exporters. With almost 90 per cent of our client base represented by small business, EDC stands as one of the federal government's most important small business financial service providers, serving over 5,000 small- and medium-sized businesses in 2000 alone.

And by funding its operations entirely from the premiums and fees charged for services, EDC is not dependent on government appropriations and, more importantly, is able to generate a profit and conservatively provision for the future. This year's profit of 194 million enables EDC to take on more risk in the years ahead on behalf of Canadian exporters and investors. In addition, in 2000 EDC set aside 549 million for loss provisions.

Ironically, the seamlessness of globalization increases the complexity – and speed – required to succeed. But this seamlessness is a reality, and we must pull together as Canadian institutions, public and private, to strengthen our capacity to deal with increasing complexity. ■

A. Ian Gillespie

EDC's year 2000 annual report is due to be released shortly. A full version will be available on our web site at www.edc.ca.

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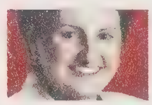

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Structuring an Export Contract: When a Handshake is Not Enough

In this and the next issue of *ExportWise*, we'll be sharing some tips for you to consider when putting together your next export contract. Below is part one of two.

By Patricia Smith

Doing business internationally has its share of challenges, whether you are a small company exporting to a familiar market for the first time, or a larger producer of capital goods taking on your largest export contract yet.

One service sector exporter, for example, found that the thrill of signing a new contract quickly turned to anxiety when he discovered that the deal left him short of cash. Just a few weeks into the project, with costs exceeding his estimates and a long wait until the first payment, the exporter had a cash flow problem – and his contract did not permit rescheduling of payments.

The contract provided for payments to be made when specific milestones were reached, the first of which was 90 days after the work had begun. If this exporter had negotiated more frequent payment terms, he would have experienced less financial strain and may have avoided seeking high-cost financing after the fact.

While this exporter learned the hard way, we hope you won't have to. To avoid these kinds of pitfalls, here are some tips from the experts at EDC.

Put it in writing

A written contract containing all of the basic terms and conditions is a must. Don't forget to include in the contract any terms and conditions that were discussed and agreed to verbally.

→ *Have you covered the basic payment and delivery terms?*

→ *Is there a detailed description of the goods/services being supplied? The description should be detailed enough that both parties understand it.*

→ *Does your contract specifically describe the process for settling disputes?*

→ *Does your contract list conditions under which all parties have the right to terminate all or a portion of the contract?*

→ *Does your contract permit you to terminate in the event of buyer default (e.g. payment default)?*

→ *Do you have the right to get back the goods in the event of payment default by the buyer?*

→ *What is the governing law of your contract (e.g. your country's law or your buyer's)?*

→ *Does your contract include a completion date or firm delivery schedule?*

→ *Does your contract require that you post bank letters of guarantee or surety bonds in support of your contract performance obligations?*

Make sure you will be paid

Without clearly defined payment terms in your contract, there is room for misunderstanding, which could result in payment delays or default.

→ *Does your buyer have a clear, unconditional obligation to pay regardless of outside financing arrangements?*

→ *Does your contract define the currency, amount, and documents required for payment?*

→ *Do specific events trigger payment (e.g. receipt of goods at a pre-determined destination or performance milestone)? If so, are they explicitly described? Are these events under your control?*

→ *Is the method of payment stated (e.g. letter of credit vs. open account terms)?*

On-Line Resources for the Exporter:
Finding Leads

Web sites

International Business Opportunities Centre:
www.iboc.gc.ca

IBOC matches Canadian companies with international trade leads provided by Canadian trade commissioners and commercial officers around the world. To receive leads, register your company on-line at the above web site.

Exporters.com.sg:
www.exporters.com.sg

A highly organized site, Exporters.com.sg covers 23 industries and over 160 trade networks worldwide. Users can join the trade networks as well as take advantage of the site's "Request for Quotation" section. Membership is free.

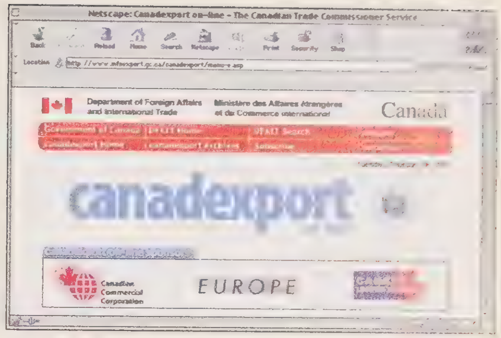
Canadian Exporters Catalogue:
www.worldexport.com

Prospective buyers of Canadian goods and services can conduct searches by name, product description or location through this on-line catalogue, which is multilingual and available in hard copy and CD-Rom format. Let the leads come to you!

Electronic news

EDC's e-News: www.edc.ca

This monthly electronic newsletter is offered free through EDC, and highlights upcoming industry trade shows and news bites relevant to exporters and export-ready Canadian businesses. If you would like to subscribe, simply sign-up from the web site.



CanadExport:
www.infoexport.gc.ca/canadexport

An e-mail edition of CanadExport can now be sent directly to your e-mail address by subscribing on the web site above. Several other subscription services are also available on this Department of Foreign Affairs and International Trade site.

What are your favourite on-line resources? Let us know by e-mailing exportwise@edc-see.ca.

- → *Do you know where to send or present documents to get paid in the case of payments under letters of credit?*
- → *Are the documents within your control? If not, do you know what you need to do to obtain the documents?*
- → *Will the payment schedule allow you to pay your own bills?*

Understand your full costs

Both parties to the contract may have different assumptions about what is included. It is best to be clear and to understand your full costs before finalizing a price.

- → *Negotiate your price only after you have agreed on what is being included (e.g. shipping, insurance, and permits).*
- → *Ensure that any additional financing costs payable to a financial institution are included in the contract price.*
- → *Consider building in a clause that anticipates, and possibly protects you against, the changing value of the currency in which you will be paid.*

Know what permits are required

Do not assume that conditions for doing business abroad are the same as they are in Canada. Ensuring you have the necessary documents in place will minimize headaches.

- → *Are there permits or documents required for work to be done on-site?*
- → *Will your employees be permitted to work without visas and work permits?*

In general, you can expect any contractual work done in the buyer's country to be governed by local law. If you are unfamiliar with the market, you will want to ensure you have a reliable source of information on this subject; perhaps consider hiring a reputable local agent or legal counsel.

Next issue of *ExportWise*:
Part two of this article will conclude with tips on shipping terms, governing laws and buyer financing.

Financing Your Buyers - *Fast*

Are you on the verge of closing a deal, but your buyer wants financing? You're not alone! If you are an exporter of capital goods and related services and your deal is under $5 million, EDC's SME Financial Services team can provide the quick, streamlined service you need to help close the deal. Here's what you can expect:

- EDC can usually assess whether the deal is do-able or specify additional information requirements to you within 24 hours.
- Upon receipt of all required information, EDC can usually issue a term sheet or offer letter within seven business days.

For more information call 1-888-332-3777.

Specifically SME: EDC's Services for Smaller Exporters

By Terry Burbridge

While all of EDC's products and services are available to small- and medium-sized enterprises (SMEs), several offerings have been designed specifically for the smaller exporter, many delivered in partnership with other financial institutions. For more information about these and other EDC services call our Smaller Exporter Hotline: companies with annual export sales of up to $1 million, call 1-800-850-9626; companies with export sales that exceed $1 million annually, call 1-888-332-3777.

Small Business Accounts Receivable Insurance: This is a widely used insurance policy covering all of your short-term (less than one year) credit sales. The policy protects you against non-payment by your buyers, with EDC covering your foreign accounts receivable and London Guarantee Insurance Co. covering your domestic accounts receivable.

Master Accounts Receivable Guarantee (MARG): A SME exporter with less than $10 million in annual sales can obtain additional operating line financing up to $500,000 from any of nine participating financial institutions, by EDC guaranteeing a line of credit based on the foreign accounts receivable of the exporter. Contact your local Account Manager at your Financial Institution or EDC.

Discounting or Factoring Accounts Receivable: EDC does not purchase or discount receivables (commonly called factoring) directly. However, if you have an EDC Small Business

FITT for Trade – Are You?

EDC and the Forum for International Trade Training (FITT) are out to ensure that more Canadian companies are export savvy in the global marketplace.

By Judy Casselman and Toby Herscovitch

As the world becomes more interconnected and Canadian companies expand their businesses globally, the need for formal trade education increases. Committed to partnering with educational institutions to develop an export culture in Canada, EDC has signed a three-year cooperation agreement with the Forum for International Trade Training (FITT), which took effect in January.

"Both EDC and FITT share a concrete interest in the growth of Canada's export capacity. This partnership supports that interest by ensuring companies have access to the most up-to-date international business training, which is considered by some as the best in the world," says Caroline Tompkins, FITT's General Manager.

FITT is a national, not-for-profit professional organization, committed to developing and delivering international trade training programs and services; establishing country-wide standards and certification; and ensuring continuing professional development in the practice of international trade. Through FITT workshops, individuals and small- and medium-sized enterprises (SMEs) learn about the benefits and challenges of exporting.

FITT also offers a Certified International Trade Professional (C.I.T.P.) designation, which is gaining increased recognition across Canada as a badge of expertise in the field.

"Smart Canadian executives don't guess anymore – they know that C.I.T.P. means much more than training. It means guaranteed experience, a proven business strategist, a skilled communicator, a cultural interpreter…with the skills that you need today for tomorrow's global markets," says Judy Bradt, Director of Government Markets, Canadian Embassy in Washington, D.C.

EDC will contribute up to $300,000 to FITT over a three-year period. The funds provide for developing and updating FITT's course curriculum; increasing both organizations' profiles with each other's customers and potential customers; and enhancing EDC's support to SMEs.

Mingle and learn

EDC is also a major sponsor of FITT's annual conference this year, from

Accounts Receivable Insurance Policy, your Financial Institution may be willing to purchase some or all of your receivables if you assign these receivables under the policy to your Financial Institution.

The following are insurance policies that EDC has in place with selected Financial Institutions where you can also factor or discount your receivables easily:

Natexport Policy:
Contact your local Account Manager from the Banque Nationale.

Toronto Dominion Bank Policy:
Contact your local TD Account Manager.

Export Ease:
Contact Accord at 1-800-967-0015.

Export Ease Plus:
Contact Montcap at 1-800-231-2977.

i Trade Policy:
Contact i Trade at 1-877-734-7773.

Actrade Policy:
Contact Actrade at www.actrade.com.

Streamlined Medium-Term Export Loans: When you have a capital goods sale in a foreign country on credit terms greater than one year, a loan from EDC to the foreign buyer/borrower can turn that credit sale into a cash sale.

Lines of Credit (LOC): EDC has established almost 50 LOC with foreign borrowers and banks who can use these LOC to purchase capital goods and services from Canadian exporters. See page 36 for a list of LOC by countries, foreign borrowers and banks.

NorthStar Trade Finance: NorthStar (an export financing company owned by four banks, the Government of British Columbia and its founder) provides medium-term loans to foreign buyers for the purchase of Canadian capital goods in amounts up to $3 million. Contact EDC or NorthStar at 1-800-663-9288.

Scotia Americas Capital Equipment Purchase Program: If you are pursuing a capital equipment sale in Argentina, Chile, El Salvador, Jamaica or Trinidad and Tobago, you can approach the local subsidiary of the Bank of Nova Scotia in these countries to get financing of your deal backed by EDC. Contact the Scotiabank subsidiary/affiliate in each country for more information.

Working Capital Risk Sharing Guarantees: EDC has established with the CIBC a 50/50 risk-sharing facility for SME exporters in knowledge-based industries which provides exporters with the working capital needed to deliver on export contracts.

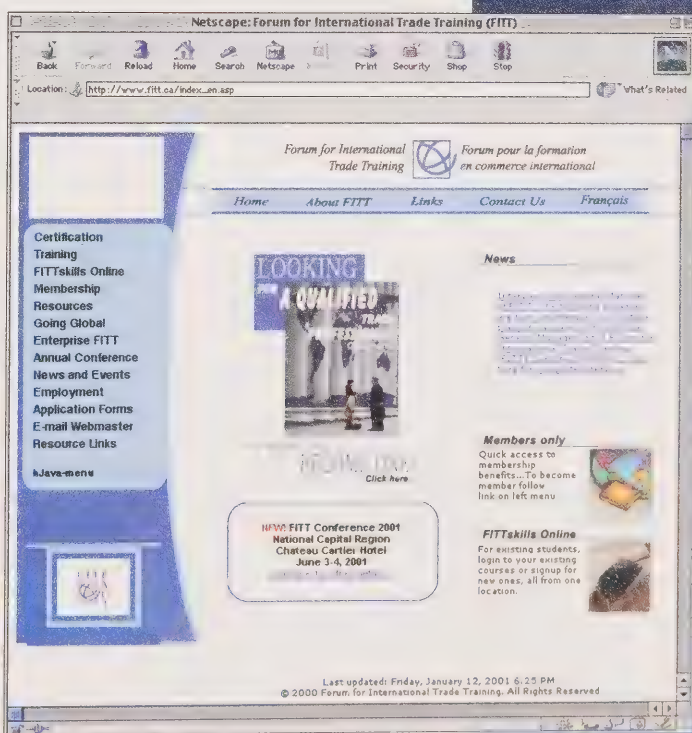
Simplified Contract Bonding: Using a simplified application/approval process, EDC can free-up your capital by guaranteeing a contract bond or surety bond that you are required to post for a foreign contract. ■

Terry Burbridge is a SME product specialist with over 14 years experience at EDC. He can be reached at tburbridge@edc-see.ca.

June 3-4 in the National Capital Region. For those involved in international trade, the event offers a convenient mix of workshops, exhibits and networking opportunities. Participants mingle with business and government decision-makers to gain from their experiences and expertise. Speakers include Mike McCracken, Infometrica's economic guru, who will present his views on the "Canadian Economic Outlook," and renowned futurist Ruben F.W. Nelson, President, Square One Management, addressing international business trends. ■

For more information about the conference, please contact: Osprey Associates at (819) 827-5931 or by e-mail at conference@fitt.ca, or visit FITT's web site.

For more information about becoming certified in international trade, contact FITT at 1-800-561-FITT (3488) or (613) 230-3553.



To learn more about international trade training, visit FITT's web site which offers information on how you can receive a C.I.T.P. designation, on-line or in-class. Also, click on "Links" to access an excellent collection of resources for the new exporter.

www.fitt.ca

Emerging Exporter Profile:

Lotek Wireless Makes High-Tech Tracks

By Andrew Douglas

"Our craft is technology; our passion is the environment," says Jim Lotimer, President of Lotek Wireless Inc.

Keith Stoodley, Director, monitors the behaviour of fish species using Lotek's advanced SRX-400 telemetry receiver in St. John's, Newfoundland.

Jim Lotimer dreamed of running a leading-edge biotelemetry company, which could offer solutions for the growing research needs of fish and wildlife scientists seeking data on the movement and behaviour of wildlife. That was 1984. Today, this Newmarket, Ontario company has evolved into Lotek Wireless Inc., a world leader in the design and manufacture of fish and wildlife monitoring systems that employs 90 people, and typically exports up to 80 per cent of its products and services to more than 35 countries around the world.

"Our craft is technology; our passion is the environment," says Lotimer, President. "We are committed to providing innovative solutions for a sustainable future. In addition to our leading-edge equipment, we also provide environmental consulting services, to assist clients with system selection, research design and implementation, equipment training and data analysis."

Lotek offers its clients a wide range of tracking solutions, from the traditional to the groundbreaking. The more traditional tracking solutions use radio and acoustic telemetry to convey information from one location to another. "We have taken these technologies in exciting new directions," says Frank Herr, Lotek's Marketing Manager, "including combined radio and acoustic tags for mixed habitats (freshwater/marine or shallow/deep); unique coded transmitters that allow large numbers of animals to be tracked on a single frequency; digital spectrum processor (DSP) technology that allows simultaneous monitoring of multiple frequencies; and remote, off-site monitoring and retrieval of data."

Lotek's satellite tracking systems use a Global Positioning System (GPS) to record accurate data. The wildlife collars are compact, sophisticated devices equipped with radio modems and computer memory modules for data storage and remote transfer of data.

In fresh or salt water studies, where the tracking of species using traditional methods is not possible, archival (data recording/storage) tags are used to take light, temperature and depth measurements at regular intervals and store the data until the species is recaptured. Lotek's archival tag line includes: the world's smallest commercially available tag; deep water tags rated to a depth of 1,000 metres; and tags capable of storing more than half a million data samples for up to 10 years.

Lotek's business development strategy involves working with the leading researchers of any species for which Lotek has a suitable tracking product or technology. "We work with them to provide the systems that they need for their studies," says Herr, "and in many cases we develop new or custom products in partnership with them, whenever there is a reasonable market for such a new product."

This strategy works. Lotek's reputation for innovation precedes them and researchers now tend to look to Lotek first whenever they require state-of-the-art solutions.

A customer with EDC's Emerging Exporter team for five years, Lotek uses accounts receivable insurance to access working capital from its bank, which in turn has helped the company break into new export markets where it had previously been unable to compete. ■

Andrew Douglas works on EDC's Emerging Exporter team and can be reached at adouglas@edc-see.ca or 1-800-850-9626.

New Technology and Canada's Financial Institutions

By Stephen S. Poloz

The desire of some of Canada's major banks to merge continues to hang in the air. There are many factors contributing to this pressure, but the most fundamental probably has to do with the global technological revolution we are witnessing.

We have seen gigantic leaps in the power and capability of the computer chip, along with dramatic declines in the price of purchasing that power. The average price of new machinery or equipment has declined by over 35 per cent in the past 10 years, relative to the cost of labour. Companies of all types are investing in new technology and reducing labour inputs in response.

Nowhere is this technology shock more telling than in the financial services business. Financial services are all about information, and the cost of accessing, storing and moving information has been plunging for several years. In short, financial intermediation is getting faster, easier and cheaper. We know this from our own personal experience, and in the business-to-business world, the transformation has been even more dramatic.

At a technical level, this means that the informational asymmetries that underlie financial intermediation are shrinking. The information wedge between lender and borrower that has traditionally been the province of banks is becoming smaller over time. Accordingly, making a profit in bridging those informational asymmetries means boosting the capital-labour ratio at banks over time. At the same time, these technological advances mean that bricks and mortar no longer play nearly the role that they used to.

Canadian banks, or financial services companies as they now prefer to be called, have a great deal invested in bricks and mortar. They also have a lot invested in what one could call the supermarket approach to financial services – traditionally, they have done it all. Unfortunately, this is not a model for achieving excellence, especially when margins are shrinking. To achieve significant scale economies in all areas of their business, they probably would need to be much bigger than they are now.

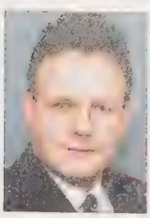
In short, they would need to merge with partners, and not only with domestic partners, but with foreign ones as well.→

Failing that, they may need to choose certain segments of their business and focus on them, developing scale economies just on those areas and competing their way to the top tiers. These international competitive pressures suggest that Canada's banks will eventually specialize their product offerings to some degree, regardless of whether or not they ultimately merge with other Canadian institutions.

There will be more competition in future, not less, as new financial intermediaries emerge, especially on the lending side. Some of these new entrants will be foreign institutions, but others will be domestic companies, such as grocery stores or other retail entities, that simply choose to leverage their existing customer base into providing some very specific financial services. From the viewpoint of the consumer, the result will be that our financial services will be provided by a variety of companies.

The process of specialization will also lead naturally to the emergence of a new kind of financial intermediary – a collector – or umbrella company. These companies will collect all your business into one electronic portal, attached to one password or other identifier, and let you access all of your financial services under one electronic roof.

The bottom line is that the forces pushing Canada's financial institutions to merge are real, not imagined, and those pressures are growing through time. One way or another, the system that delivers financial services to Canadians will look much different 10 years from now. ■



Stephen Poloz is Vice-President and Chief Economist at EDC and is a regular columnist in ExportWise *(see page 38). Prior to joining EDC, Stephen was managing editor of* The International Bank Credit Analyst.

The views expressed here are those of the author and are not necessarily held by EDC.

The Economics of Environmental Responsibility

Husky goes beyond an environmentally friendly workplace, as shown here at its head office in Bolton, Ontario. It rewards employees for protecting the environment at home too — from buying alternative fuel vehicles and water-conserving shower heads to walking or carpooling to work. This program, called GreenShares™, allows employees to earn common shares in Husky.

By T.J. Dhillon

Recycling at Husky is simply good business sense. Husky's total quantifiable savings from environmentally friendly practices are well over $1 million annually.

"How much will it cost?"

This is invariably the question that corporate management will ask when deciding whether to implement new, environmentally friendly policies in the workplace.

However, the more accurate question might be, "How much will it save?" Despite the initial cost, many environmentally conscious programs bring both direct and indirect financial returns, often within a relatively short period of time. This has been our experience at Husky Injection Molding Systems Ltd.

Husky is an internationally recognized leader in proactive environmental responsibility, largely due to the strong values of the founder and CEO, Robert Schad. From chemical-free landscaping and low-emission painting processes to automatic lighting and extensive recycling programs, we focus on integrating environment, health and safety (EHS) issues into every aspect of our business.

In 1999, Husky had a waste diversion rate of 95 per cent, translating into over 5,000 tonnes of material diverted from landfill, which generated over $850,000 in revenue from the sale of the various recycled resources. This diversion also led to the reduction of over $350,000 in reduced disposal costs.

We are also lowering our initial consumable purchases by using double-sided printers and copiers, having electronic phone books and using e-mail and the Husky intranet as primary communication tools.

Worldwide, Husky has converted over 60,000 m^2 of grass to naturalized landscape, eliminating the need – and expense – for 4.5 tonnes of chemical fertilizer and 300 kg of herbicides annually, and the regular maintenance by fossil-fuel burning lawnmowers and blowers.

Finally, the ongoing transition of all our business units to ISO 14001 certification will contribute to further savings by reducing waste, paper and scrap production. The total quantifiable savings are well over $1.5 million annually.

The direct economic benefits are obvious. However, what are the 'fringe benefits'? The positive effect on the environment cannot be overstated. Husky believes in a global responsibility to protect and restore the environment for the enjoyment of future generations.

This belief is supported by a growing number of suppliers and customers who will only do business with companies that are committed to a greener future. We believe this trend is on the rise and companies that continue old-style, exploitive policies will miss out.

Finally, the brightest talent of today is more socially conscious than ever before. They want to work for a company that reflects their own environmental beliefs. Therefore, this ability to attract and retain the best people in the industry is a tremendous economic advantage.

The effects of becoming environmentally responsible are enormous. From direct economic savings to the protection of the natural ecosystem, taking care of the environment is very rewarding. At Husky, we are always looking for new ways to integrate sound environmental management into our business practices. We believe that maintaining a strong, healthy environment is ultimately in everyone's social – and economic – interest. ■

Tejinder (T.J.) Dhillon is the Director of Communications at Husky Injection Molding Systems (www.husky.ca). Before joining Husky, T.J. was a practicing lawyer in British Columbia and is still a member of both the B.C. and Ontario Law Societies.

The views expressed here are those of the author and are not necessarily held by EDC.

Photos courtesy of Husky Injection Molding Systems Ltd.

With annual sales approaching one billion in 2000 and a staff of specialists around the world, Maple Leaf Foods International is one of the world's largest international traders and niche marketers of food and agricultural products.

One of 10 independent operating companies under the corporate umbrella of Maple Leaf Foods Inc., Maple Leaf Foods International has been exporting to the Asian market for over 30 years.

A Force in Food

Here, Ted Bilyea, President of Maple Leaf Foods International, provides an insight into this agri-food industry success – from recruiting and retaining the best talent to competing on an uphill playing field.

Ted Bilyea, dressed as a traditional Japanese chef, entices Aki Sekiya, President of Maple Leaf Foods Japan division, with its latest pork product *Tonkatsu*, specifically developed for the Japanese market.

From the slaughter house to the executive boardroom, Ted Bilyea has seen it all. He is what one might call the classic company man, having spent more than a quarter century with Maple Leaf Foods International.

"It's funny how things happen," Bilyea explains in a recent interview with *ExportWise*. "Back in 1973, somebody in the Human Resources Department at Maple Leaf noticed I had taken some courses in Chinese at York University." At the time, Maple Leaf was looking to fill a position in the foreign trade department, selling pork to Japan. →

Photography: Harquail

"It sounded more interesting than spending my time on the kill floor and the cutting floor," Bilyea recalls, chuckling. "Of course, Chinese and Japanese have almost nothing in common. I just said 'thank you' and took the job." Today, he spends about four months of the year travelling.

Bilyea, who has a Master's degree in International Relations and is a voracious reader of Canadian history, has since been involved in almost every aspect of one of Canada's largest international marketers of food products.

But don't get the wrong impression. A slick, fast-talking product pusher, he is not. "Ted," as he's known to employees at Maple Leaf Foods International, is reserved and unassuming. He speaks freely and proudly of the company he leads but is shy about promoting his role in building this international success story.

Bilyea spends his leisure time hiking, sailing and taking long walks with the dog. Professional time is devoted to priorities that his peers would identify with – retaining his best people, harnessing the power of the Internet, and adopting emerging technologies.

Innovation

What may not be so common is the introduction of the Six Sigma process to Maple Leaf Foods International. "Some of this stuff is pretty jolting," Bilyea declares. "It will help us get things right the first time, every time."

Six Sigma is a process for using data to closely measure quality at every step in the production cycle. It has been successfully integrated into companies such as Motorola, Nokia and General Electric.

According to Bilyea, introducing this kind of revolutionary process is no small undertaking. "Our industry is fundamentally different than most because we're in the dis-assembly business," Bilyea says, making an effort to keep the explanation simple. "We start with a raw material, take it apart and market the hundreds of different items that come from the animal. It's difficult to appreciate how unique and complex our business is if you haven't spent some time on the plant floor."

"Adopting Six Sigma is a 10-year investment and we've only just begun to train our people. But, it's already dramatically changing the way we think and work." There's an almost evangelical tone to his voice. "We're one of the first companies in the food business to tackle this and we're tremendously excited about the potential impact on our bottom line."

At the same time, emerging technologies are helping to improve his company's competitiveness. "Using the Internet and our internal computer systems, we're able to move massive amounts of information all over the world very quickly," Bilyea remarks, adding that digital technology has vastly improved the way his company deals with customers in remote locations.

"In the past, if you had a customer who reported a problem, we would have to send one of our staff to check it out. It could take days to resolve the problem. Now, that customer takes a digital photograph of the incorrect markings or the damaged container, sends it via e-mail, and we can take care of it right away."

State-of-the-art cooling, along with automatic weighing and other robotics, are also improving the bottom line. At the world's newest processing plant in Brandon, Manitoba, Maple Leaf boasts the most hygienic systems anywhere, meaning a much longer shelf life for meat products.

Long-term relationships

When asked about the biggest challenges of marketing food internationally, Bilyea is quick to cite regional and cultural differences. "Pork feet and some of a pig's internal organs are highly valued in parts of Asia and of no value elsewhere," he says to illustrate his point. "Our job is to understand what each individual customer wants – the particular cut of meat, the texture, the colour – and deliver high-quality products to markets around the world."

Touring the company's Toronto headquarters, one quickly gets the sense that Bilyea and his employees are well aquainted with their products. A spacious test kitchen is located in the centre of the offices, lined with refrigerators, freezers and ovens. Maple Leaf products line the shelves, and product posters line the corridors.

Bilyea believes there is nothing more important in business than the quality of the relationships with customers and suppliers. "If you genuinely try to understand them and value them highly, you can't help but learn from it and do well." Remarkably, some of Bilyea's important customer and supplier relationships date as far back as 25 years.

Bilyea was part of the Prime Minister's Team Canada trade mission to China in November of 1998. In April 2000, after undergoing rigorous quality assessments, Maple Leaf Foods International became the first in the world to be given the go-ahead to deliver pork to China. *(Editor's note: Also see sidebar, right, as well as this issue's feature on China, page 22.)*

Did you know?

Agri-food is one of Canada's top five industries, representing about 8.5% of GDP.

Canada's total merchandise trade surplus was $34.7 billion in 1999; the agri-food sector's trade surplus was $5.2 billion.

More than 98% of all farms in Canada are family-owned and operated.

Source:
Agriculture and Agri-Food Canada

On the home front, relationships are just as important, particularly when he's out of the country for a third of the year. "I've been married to a great woman since university who has done a fabulous job of raising our son. Over the years, I've become a pretty good scheduler, so that my trips don't take me away from important family events," Bilyea explains.

Retaining your best employees

Maintaining a competitive edge in the international food business also means seeking out the best university graduates available, then giving them a few years to gain experience in the key areas of the operation.

"I spend a great deal of my time on people," Bilyea states without hesitation when asked about his priorities. "The challenge is to find the really good ones and keep them around once you've hired them. If you've got the best people working for you, your company is going to perform better and the results will be that much more attractive for the shareholder." Through various career development programs, including its Leadership Academy in London, Ontario, Maple Leaf is creating what it calls "The Leadership Edge: thousands of high-performing people, thriving in a high-performance culture."

The human resources challenge for a company working in Canada is compounded when the business is international, Bilyea explains, because of the large cultural differences in regions like Asia, Europe and Latin America. Maple Leaf Foods International has offices in Japan, Hong Kong, South Korea, England, Germany, Mexico and Poland. Employee[illegible] in the Toronto office are as multi-cultural as their di[illegible] client base. "The quality of our people, and their abil[illegible] to build solid partnerships in diverse markets around the world, is vital to the success of our business," he [illegible]

Leveling the playing field

Competing internationally in the agri-food business is [illegible]plicated by government subsidies to producers in Europ[illegible]

Top 5 Tidbits

Top five provincial agri-food exporters, January to October 2000.

1. Ontario ($5,524 million)
2. Alberta ($4,144 million)
3. Saskatchewan ($3,331 million)
4. Quebec ($2,216 million)
5. Manitoba ($2,062 million)

Source:
Statistics Canada, Agri-Food Trade Service

Team Canada Trade Mission

Canada's agri-food industry cracked the China market in 1961 with its first wheat sale to China.

Since then, trade between the two countries has risen dramatically and this year, marking the 31st anniversary of Canada-China diplomatic relations, a Team Canada Trade Mission of over 500 delegates has just recently returned from visiting Beijing, Shanghai and Hong Kong. Key EDC representatives also participated on this mission, with EDC as a major sponsor.

While Canadian firms must plan carefully before entering the market, China represents an immense market for commercial agricultural and consumer goods. In addition to agriculture and agri-food, opportunities for Canadian firms are particularly high in the following nine sectors: environment technologies; forest, construction, building material products and services; information and communications technologies; education technologies and culture industries; energy; transportation; mining and minerals; financial services; and medical and health services. ■

For more information on Team Canada: plans for 2001 trade missions are available on the Team Canada web site at www.tcm-mec.gc.ca.

For more information on China: see this issue's feature on China pages 22-30, as well as the information resources found in Inter.net.working on page 32.

Next issue of *ExportWise*:
COM DEV International shares their experience as an exporter on the recent Team Canada Trade Mission.

and the United States. As co-chair of the Canadian Agricultural Marketing Council, Bilyea insists that government support for Canadian agri-food companies is declining, while competitors in the European Union and south of the border are enjoying higher subsidies. He maintains that, on a per capita basis, their subsidies are twice as high as those offered to Canadian producers.

"And the gap is widening," warns Bilyea. "Not only does it hurt Canadian businesses, but it has destroyed some of the agricultural base in developing countries. They don't develop their domestic industries because they can't get decent prices for their agricultural products. That, in turn, reduces the market for processed food products from companies like ours."

A force in food

"The one thing that has kept my interest over the last 30 years is the fact that our company has continued to mushroom," says Bilyea. "There have been enormous changes in our industry and through it all, we've continued to build momentum and increase our influence in the international market. We're not satisfied with anything less than a position as one of the leading agri-food companies in the world."

Putting people first – employees, suppliers and customers – has been a key ingredient in Maple Leaf's recipe for success. It is no coincidence that their international foods division is led by a man who ascended to the president's office by learning every aspect of the business and by building lasting relationships along the way. ■

Economic Outlook for Canada's Agri-Food Sector

By Gerry O'Brien

The agri-food sector, including agriculture and food processing, is an important part of the Canadian economy. The sector accounts for over 4 per cent of GDP, 6.6 per cent of total exports and about 5 per cent of total employment. On a regional basis, the Prairies account for over 40 per cent of Canada's agri-food exports, followed by Ontario and then the Atlantic provinces. EDC is very active in the sector, with nearly $3 billion in transactions on behalf of exporters in 2000.

Canadian exports of agri-food products are expected to post growth of 11 per cent in 2001, after an estimated nine per cent in 2000. In contrast, many other export sectors will experience a moderation in sales growth, as the world economy gears back a notch. However, the agri-food sector was one of those hardest hit by the Asian crisis and the subsequent downturn in Latin America, and those rebounds in sales are still to come.

Most of the gain in agri-food sales this year will result from stronger export volumes, as the majority of agricultural prices are expected to show only a modest improvement. Nevertheless, this firming in prices, especially for bulk agricultural commodities, represents a significant improvement over the price declines of the past two years. The outlook is for a tightening in global demand/supply conditions for most cereals and oilseed products in 2001.

Geographically, the improved outlook for Canadian exports of agri-food products will be led by a strengthening in demand from the United States, despite the expected slowdown in the U.S. economy this year. This will be accompanied by a turnaround in exports to the other key markets, including Japan, South America and Asia. There will also be continued strong growth in agri-food exports to the Middle East.

On a product basis, the improved outlook will be driven by strong double-digit growth in exports of wheat, meat, other cereals and cereal preparations. Most of the strong growth in exports of these commodities will be due to higher shipments to the developing countries, particularly Asia, the Middle East and Africa. Exports of oilseed products are also expected to take a positive upturn in response to firming demand and prices in 2001. These positive trends will be supported by good growth in exports of fish and other food products.

The main risk in this outlook is that sales to the United States will fall short of expectations, as the slowdown in the United States is unfolding more rapidly than expected. A more profound weakening of the U.S. economy would naturally spill over into some of Canada's other export markets as well. ■

Gerry O'Brien is an economist with EDC Economics and can be reached at go'brien@edc-see.ca.

Food for Thought

If you're an agri-food exporter, the unique challenges described here might sound familiar. Fortunately, EDC's agri-food team is able to provide an excellent source of well-balanced support.

By Jane Daly

The world is developing a hearty appetite for Canadian agriculture and agri-food exports, according to Agriculture and Agri-Food Canada. These exports totalled $22 billion in 1999, with more than 60 per cent destined for the United States. Other major markets include Japan, Europe, China/Hong Kong and Mexico.

And with new opportunities created by the World Trade Organization, the Free Trade Agreement, and the North American Free Trade Agreement, the agri-food sector is expected to continue growing.

But dealing in edible exports does not always make trade greener on the other side of the pasture. From prices that fluctuate wildly to live goods with a tendency toward cannibalism, agri-food exporters grapple with a host of challenges that are not often faced by dealers of inanimate objects.

Here, three agri-food exporters discuss the challenges of their industry, and how EDC services help them achieve a steady diet of success.

Getting their claws into research

If someone invented a love potion, Greg Sears would be first in line to buy it. "I'd sprinkle it everywhere," says the President of W. Sears Seafood.

Such a statement may seem out of character for a man who makes his living from the briny sea, but it actually makes good business sense. "The lobster industry is governed as much by emotions as by price," Sears explains. "When people feel romantic, amorous and rich, they buy. You're constantly taking a gamble on how people will feel."

Sears purchases live lobsters from fishers and then sells them to restaurants in New England and Europe. While waiting for orders to come in, the lobsters are cared for in enclosed tidal pounds in the ocean or in dry land pounds. "Dry land pounds are becoming more popular because they're regulated environments in which the temperature, water quality and oxygen can be controlled," says Sears.

"Orders are taken over the phone and sent two or three hours later. There's no time to thoroughly check out a client before you ship."

Because lobsters naturally like dark, enclosed spaces (they hide under rocks in the ocean), they are kept in separate compartments in the dry land pounds. "This also helps us to ensure they don't eat each other, because lobsters can be cannibalistic in the wild," Sears adds.

A product that might literally eat up profits by munching on its co-habitants is not the only risk lobster exporters face. "You're dealing with a live, perishable item," Sears says. "Prices change almost hourly. Margins are low, and people find it hard to maintain the risk. If the shipment gets stuck on the runway, you're stuck too." →

Top 5 Tidbits

Top five Canadian agri-food exports in 1999:

1. Bulk grains, such as wheat
2. Meat and meat bi-products
3. Live animals
4. Oil seeds and seeds for sowing
5. Beverages and spirits

Source:
Agriculture and Agri-Food Canada

When an order comes in, lobster exporters get cracking

The fact that live lobster orders must be shipped quickly poses another risk. "Orders are taken over the phone and sent two or three hours later," says Sears. "There's no time to thoroughly check out a client before you ship."

That's where EDC services help. "We joined EDC two years ago to get receivables insurance, and to get information clients weren't telling us, such as their debt load," says Sears. "There are a few clients who will go from supplier to supplier, racking up credit, and then stick everyone. Before, we could only get that information through word-of-mouth. The more we know, the more we can control."

Bryan Mask, Sears' EDC representative, explains how such research can help. "Our market research uses a vast number of different channels. We maintain a database of over 53,000 buyers, and even if information on a new buyer is requested, we can access over 100 other information sources. Research can also include country and political risk analysis, and detailed financial and background analysis."

Mask adds that the receivable insurance program is a real benefit. "Competition has dramatically decreased margins in the lobster industry, thus any losses due to buyer default place a real strain on the business," he says. "Because Canadian banks see EDC's coverage on receivables as a strong addition to a business security package, it has also helped many businesses increase their working-capital line."

Sears agrees. "The more clients EDC gets in this industry, the better it will be for all of us. We expect our business to grow with EDC."

Top 5 Tidbits

Top five Canadian agri-food export markets in 1999

1. United States (60.6%)
2. Japan (9%)
3. European Union (5.8%)
4. China (3%)
5. Mexico (2.3%)

Source: Agriculture and Agri-Food Canada

A kernel of peace in a competitive world

While lobsters are threatening to literally snack on each other, in the traditionally domestic snack food industry, the big guys threaten to snack on the smaller companies. And the import competition, largely from the United States, is fiercely hungry for a big slice of Canadian market pie.

According to the Food Bureau, Agriculture and Agri-Food Canada, 1988 snack food imports accounted for 3.2 per cent of the domestic market, while 1.7 per cent of shipments were exported. After the Canada-U.S. Free Trade Agreement in 1989, imports grew to take 10.8 per cent of the domestic market by 1997, while export growth lagged behind at only three per cent.

One major reason for the lopsided growth is that most snack food purchases are impulse buys. Competition is based primarily on branding, advertising and promotion, and Canadian companies simply don't have the budgets of the American snack food giants. Ditto for funds to expand production facilities.

But while U.S. companies may try to chip away at the Canadian market, Canadian companies are noting appetizing snack food sales in the United States. In 1997, Canadian snack food consumption was 1.82 kg per capita, while per capita U.S. consumption was six times higher – a whopping 11 kg. "Now we're trying to get in their back doors," says Paul Freger, controller at Krack-O-Pop Snack Foods in Anjou, Quebec. "Price and quality are very important," he adds. "We have a good product and we're trying to keep it growing."

Freger says equipment and manufacturing facilities are major expenses, and again the U.S. giants have more money to spend. "It's not easy, because strict guidelines must be followed in the food industry according to HACCP (Hazard Analysis Critical Control Points)," he says. For example, peanuts have to be kept in a sealed area away from non-peanut products.

Fortunately, a year and a half ago, Krack-O-Pop underwent a $5 million expansion of its facilities. "If you export to the United States, you have to expand to compete with the big guys," Freger explains. "Our facility went from 40,000 square feet to 130,000 square feet, and our employees from 35-40 up to 175-200."

Krack-O-Pop sells to large customers in the United States and Canada,

"Still, one bad claim can really hurt, so we got insurance so we could sleep at night. And our banker also wanted us to have it so he could sleep at night."

as well as grocery stores throughout Quebec. They turned to EDC for insurance on U.S. and domestic receivables almost two years ago. "We deal with large, well-known chains so we don't expect a problem," Freger says. "Still, one bad claim can really hurt, so we got it so we could sleep at night. And our banker also wanted us to have it so he could sleep at night."

In fact, Krack-O-Pop has already had to make one claim. "When that happened, EDC really took charge," Freger says. "We had excellent service and received a cheque very quickly."

Helping to plant the seeds to success

In St. Joseph, Manitoba, Robert Parent echoes Paul Freger's need for peace of mind. Parent is the Accounting Manager for a family-owned business that exports quality seeds for wheat, beans, lentils and more, and also boasts Manitoba's first specialized bean processing facility.

Though Parent's company had been aware of EDC for several years, they registered with the corporation's services just one year ago. "More of our business was becoming exports and the risk factor was getting too high," says Parent. "Seed prices fluctuate, and when prices drop, buyers are likely to drop a deal. We worried about problems with non-payment, and the EDC services gave us peace of mind."

Parent adds that his business takes advantage of EDC's short-term receivables insurance, which provides coverage of up to 90 per cent against the risk of non-payment by their foreign buyers, to free-up more capital to grow the business.

Parent has already seen how quickly EDC responds to a problem. Recently, after shipping an order of seeds, it became apparent that the buyer was not going to pick up the product. "It took several weeks before we knew for sure he wasn't going to pay," he says. "Then we had to scramble to find another buyer, and that involved moving the product elsewhere. We would have suffered a substantial loss, but EDC helped."

"We've operated for many years and had very few bad things happen to us," Parent sums up. "But as export business increases, the chance for payment defaults can increase too. EDC helps guarantee the survival of the company over the long term. They're good people and have been responsive to my questions. They're definitely helping to make business grow." ■

Montreal Welcomes Agri-Food Exporters

Expecting to welcome over 10,000 visitors in March Montreal hosts the first-ever SIAL exhibition in Canada.

SIAL Montreal aims to replicate the success experienced by SIAL exhibitions held in Paris, Buenos Aires, Singapore and Peking.

With an exhibition area of 20,000 m², SIAL Montreal will have room to feature the whole spectrum of food and beverage products the world has to offer. Sixty per cent of exhibition space is devoted to Canadian agri-food industry professionals, while the other 40 per cent is reserved for visiting international agri-food professionals. In total, 400 to 500 exhibitors are expected.

When: March 4-6, 2001
Where: Palais des Congrès de Montréal
Montréal, Québec
Contact: Tel.: 1-514-289-9669
E-mail: info@sial-montréal.com
Web: www.sialmontreal.com

Krack-O-Pop
Business: Snack food manufacturer
Established: 1986
Number of employees: 175-200
Export business: 52%
Export market: United States
Contact: www.krackopop.com

W. Sears Seafood Limited
Business: Lobster and seafood exporter
Established: approx. 30 years ago
Number of employees: 10
Export business: 75%
Export markets: United States (particularly New England), Europe
Contact: (902) 723-2034

Parent Seed Farms Ltd.
Business: Special crop seeds exporter
Established: 1967
Number of employees: 34
Export business: 80-85%
Export markets: South America, Mexico, Europe
Contact: www.parentseed.com

ICP Global: Solar-Powered Exports

By Brenda Brown

When Sass Peress marketed his first solar-powered consumer product, it was an immediate success. Featured in the Sears Catalogue – a major feat for a company only a few months old – orders for the $40 solar-powered ventilator, which promised to suck hot air out of cars sitting in the sun, came in fast and furious.

Peress was elated. That is, until customers started returning the product just as fast and furious. Unfortunately, the solar panel was too small, and couldn't turn the fan fast enough to significantly cool down the car.

Rather than make a quick exit out of the solar industry, Peress looked at the experience as a lesson learned; one that he has since used to build ICP Global Technologies Inc. into the multi-million dollar business it is today.

This Montreal-based company sells solar panels that run small appliances, battery savers for cars, and solar-powered battery chargers. The products are sold in Canada by large retailers such as Canadian Tire, Wal-Mart and Costco, and in the United States by the likes of Auto Zone, Camping World and Radio Shack. More than 90 per cent of sales are to the United States, Japan, Australia, Germany and the United Kingdom.

A major turning point in the company's 13-year history was in 1993 when "we became masters of our own destiny," Peress says. "We weren't happy with the products on the market and neither were our customers. So we took control and started manufacturing our own. The first was the battery-saver solar charger for cars – it became an instant success." Today, it is still the company's top selling product, by units sold.

More recently, ICP launched a major new product line, which Peress says, "revolutionizes" the solar panel industry. Marketed as "Plug n' Play," the solar modules were developed with the do-it-yourself consumer in mind. "They're easy-to-assemble, maintenance-free, high-performance solar modules which can be used to satisfy any portable mobile power need, including: lighting and ventilating your cottage, recreational vehicle, or barn; and running appliances such as televisions and VCRs."

ICP's SolarPRO Plug n' Play series can power direct-current appliances: from TVs, stereos, and satellite dishes, to refrigerators, microwaves and ventillation fans.

Photo courtesy of ICP Global Technologies

Peress says the company prides itself on superior customer service, offering up troubleshooting guides, a toll free phone line and a web site where customers can interact directly with an ICP employee. "We respond to questions within 24 hours, weekends included," notes Peress.

ICP started exporting within the first year, quickly recognizing the limited market for solar products in Canada. "They say that 'necessity is the mother of invention' and that's certainly the case here because with Canada's rich abundance of natural resources, developing alternative power sources is not a key priority," Peress says. "In countries such as Japan, where they are always looking for ways to conserve energy, solar-powered products are very marketable, so that's where we're taking our business."

The company has moved several times since its humble beginnings in the second bedroom of Peress' rented apartment. (He was soon encouraged to move on because his neighbours started complaining about the "UPS guy constantly travelling up and down the elevator.") Last summer ICP moved into a new $3 million plant. Naturally, the new plant is a showcase for solar technology, featuring a heat-trapping wall of perforated aluminum on the south face and a solar-panel network on the roof to serve as a backup power system.

With six new products coming to market, a brand new manufacturing facility, and the environment "being the hottest thing for this millennium," Peress is positioning himself for the next stage of growth.

Part of his formula for success is EDC's accounts receivable insurance, which he refers to as "sell and sleep." He explains, "although we have historically had a very low bad-debt load, we felt there was a number of advantages to this insurance, including the obvious ones of increased working capital with our bank and protecting us against losses should they occur. But it also gives us access to EDC's in-depth knowledge of markets and sector niches. This partnering and sharing of information is where we really feel we will benefit."

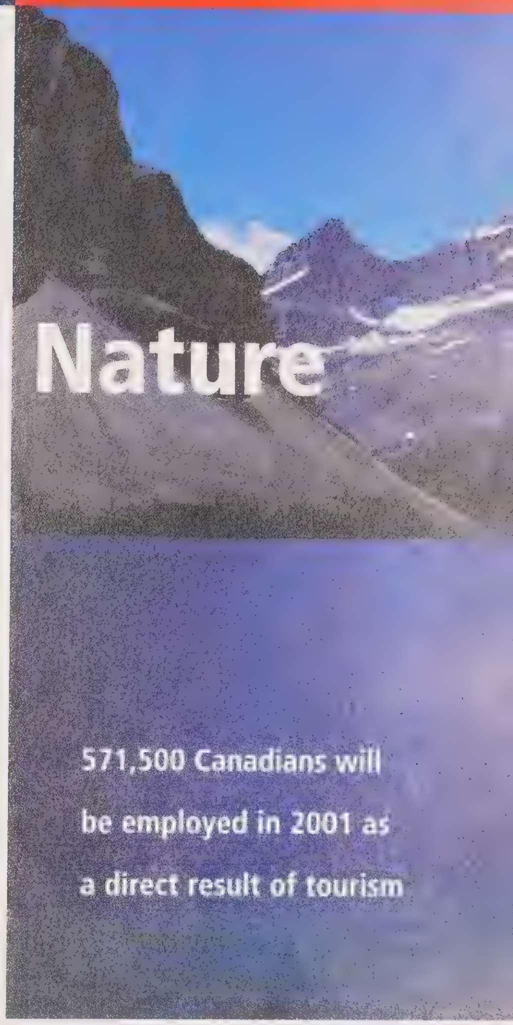
Profile

Business: Manufacturer and developer of solar-powered solutions for mobile and portable energy needs
Established: 1988
Number of employees: 35
Export business: 90%
Export markets: United States, Japan, Australia, Germany, United Kingdom
EDC relationship: Accounts Receivable Insurance
Contact: www.ICPGlobal.com

Branding Canada: Discovering Our True Nature

The entire country had a collective laugh when Molson Brewery first aired its "I am Canadian" television commercial, and while the stereotypes might have been exaggerated, they nonetheless hit a nerve with those of us tasked with selling Canada as a tourism destination.

By Jim Watson



When foreigners think of Canada, they tend to think of the Rockies, a Mountie in red scarlet uniform and the chance to see a polar bear or whale.

And while the "I am Canadian" rant makes sense to Canadians, who view themselves as a modern, urbane society, research tells us that our greatest strength – from a tourism perspective – is that we are viewed through the eyes of the world as one of the last unspoiled refuges.

Most studies that have been conducted over the past decade tell us that Canada's strength as a tourist destination is that we are seen as "a pristine wilderness and this 'nature message' is important and cannot be abandoned," (*American's perceptions of Canada Report*, April 2000). Visiting Canada means an "authentic" experience that will bring one in touch with both the wilderness and vastness of our country.

Therein lies the challenge of branding Canada as a tourism destination.

Establishing the proper branding is essential because of the sheer economic impact tourism has on our economy and its tremendous growth potential. In 1999, 19.6 million international visitors made Canada the seventh most popular tourism destination in the world, according to the World Tourism Organization. In the same year, tourism generated $50.1 billion and accounted for 2.47 per cent of Gross Domestic Product. And this year, it is estimated that 571,500 people will be employed as a direct result of the tourism industry.

Just this year, the Canadian Tourism Commission adopted the slogan "Discover our true nature" as the tagline for our upcoming advertising campaign. We believe that Americans, Europeans and Asians are coming to this country because their perception is that Canada is a very safe, clean and green country.

This advertising campaign will also aim to communicate the economic advantage for tourists, particularly our American visitors. Our strengths as a country include not only our natural environment, but also our cultural and linguistic history. And, of course, we will be working to dispel the notion that we're up to our necks in snow year-round!

And while, as Canadians, we don't always see the strengths in boasting about the wilderness and our pristine open spaces, it is a tremendous strength when it comes to branding Canada.

Indeed, it is hard to disagree with Rudyard Kipling when he described our country in 1908 by saying: "The air is different from any air that ever blew, the space is ampler than most spaces, because it runs back to the unhampered Pole, and the open land keeps the secret of its magic as closely as the sea or the desert... ."

Jim Watson is President and CEO of Canada's newest Crown corporation, the Canadian Tourism Commission (CTC). A big believer in the Canadian brand, Jim was formerly Mayor of the City of Ottawa.

The views expressed here are those of the author and are not necessarily held by EDC.

Geographic Feature

China's Imminent WTO Accession:
Smooth Sailing for Canadian Businesses?

中国

Presenting a myriad of oftentimes bewildering regulations to navigate and vast cultural barriers to overcome, conducting business with China has never been an easy journey. Now, with China's accession into the ranks of the World Trade Organization (WTO) looming on the horizon, even the most seasoned China navigators are sifting through the tea leaves looking for clues as to what accession will mean for their investments and export sales.

By Alison Nankivell

Widespread optimism was felt by Canadian exporters and investors alike when the government announced it had reached a bilateral WTO agreement with China in November 1999, shortly after the United States signed a similar bilateral agreement. Foreseeing falling import tariffs, abandonment of quota systems and increases in the levels of allowable foreign ownership, this enthusiasm was particularly high in sectors such as telecom, financial services, wholesaling and retailing.

Equally encouraging was the prospect of China bringing its restrictive foreign investment regime into line with WTO's Agreement on Trade-Related Investments and Measures (TRIMs). To comply with TRIMs, a host of existing protectionist rules in China – such as the requirement for foreign-invested enterprises (FIEs) to balance foreign exchange or export a certain percentage of their production as a pre-condition for entry into the domestic market – will need to be eliminated. It is expected, however, that revising WTO-inconsistent laws at the provincial and local levels – the level at which many Canadian investment projects have been approved – will take longer than it will at the national level. →

With China's accession expected to come in the first half of 2001, renewed foreign investor interest in China's market potential is a welcome tonic for China's leadership, who have struggled to maintain annual economic growth of at least seven per cent during the past two years. There are already indications that foreign companies selling into China, as well as those with investment projects, are gearing up for new initiatives, embarking on market research, re-assessing existing investment projects and exploring new market niches.

In the course of their research, however, many foreign firms are discovering that there are no clear answers to the question of what the WTO accession will mean for their individual business. While foreign companies see the opportunities stemming from WTO-related changes, they also discern new competitive challenges.

Indeed, it is China's over-protected, and generally inefficient, state-owned enterprises (SOEs) which have the most to lose from WTO-related reforms. Yet even the highly competitive Sino-foreign joint ventures, such as Shanghai General Motors and GM's 50:50 equity joint venture with Shanghai Automotive Industry Corp., are bracing for sharp competition as high domestic tariffs fall and competition from foreign imports intensifies.

The greatest challenge for foreign firms over the next year will likely be strategic planning in the China context at a time when major laws, government institutions and industry sector markets are being buffeted by the winds of WTO-related change. Both newcomers and seasoned China hands will need to tread carefully, making incremental changes rather than bold corporate decisions until more information on WTO-related changes becomes available.

Crucial questions such as what investment structure will be optimal for establishing new foreign projects in a post-WTO China and what operating rights will be granted to existing popular investment vehicles such as "the holding company" still do not have any firm answers. The Canadian and U.S. governments, as well as business groups such as the Canada China Business Council and the U.S. China Business Council, have posted valuable information on their countries' bilateral agreements with China on their web sites. In general, though, overall analysis and information on the implications of WTO for foreign firms remain scant.

Domestic Chinese companies have even less access than foreign firms to information on China's bilateral commitments under WTO. While key entities such as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Economic and Trade Commission have launched seminars and research initiatives to educate officials and domestic companies about the implications of WTO membership, the education campaign is still at an early stage.

Clarity on these issues will take some time to emerge. In the meantime, there are some pro-active measures Canadian companies can still take to prepare themselves for the challenges and opportunities that lie ahead. These include:

1 **Initiate your own research:** In addition to tapping existing sources of WTO information via industry, government, company and academic sources, foreign companies are engaging foreign and Chinese law firms, market research consultants as well as in-house staff to research specific WTO questions pertinent to their sector. In many cases, this means undertaking face-to-face interviews with key Chinese government and business associations involved in your sector.

2 **Promote information exchanges with Chinese counterparts:** Even if local Chinese partners and government officials have little in the way of information or insight into WTO impacts on your industry or business, it is nonetheless useful to engage in dialogue with key Chinese counterparts to ensure that they are aware of your concerns and questions. By improving two-way communication, you will be able to help local officials upgrade their own knowledge of WTO. It also helps prepare them for any future appeals you may make to local authorities for assistance in resolving disputes surrounding possible non-compliance by local agencies or domestic competitors with WTO requirements.

3 **Broaden your company's government relations strategy:** Foreign companies and business associations, rather than foreign governments, are expected to take the lead in monitoring China's compliance with its promised WTO reforms. To do this effectively, foreign companies will need to broaden their range of government contacts. At present, many foreign firms have little contact with key national approval and policy-making bodies such as the State Development and Planning Commission and the State Economic and Trade Commission. This is despite the fact that these agencies

dictate the future direction of key industries where foreign firms operate. Similarly, local level planning commissions, industry departments and regulatory agencies such as the local administrations for industry and commerce, will increasingly replace MOFTEC as the primary targets for effective foreign corporate lobby efforts.

4 **Be prepared for the worst:** While WTO reforms will alleviate some of the competitive barriers foreign firms currently face, it will not prevent local authorities from attempting to construct new non-tariff barriers in the form of licensing, technical standards and safety requirements, some of which may have even more harmful consequences for your business. At the same time, not all WTO-imposed changes will be positive for foreign business. For example, many tax benefits currently given to FIEs operating in preferential industries or investment zones will be gradually withdrawn as China harmonizes its domestic and foreign-invested tax regimes. Similarly, FIEs should recognize that China's sharpest SOE competitors are probably better poised than they are to react swiftly to WTO market changes. This is due, in part, to most Chinese firms already having well-established market and distribution channels, as well as strong domestic banking relationships.

Overall, Canadian companies deserve to be optimistic about the opportunities that will unfold as a result of China's accession to the WTO. Keep in mind though that China's journey of accession will be fraught with change. A well-developed strategy for navigating these changes will be necessary in order to take advantage of the market opportunities as they emerge. ■

Economic Snapshot

Economic Indicators (US$bn unless otherwise noted)	1999	2000(est)	2001(proj)
GDP (% growth)	7.2	7.5	7.5
Inflation rate (%)	-1.4	0.5	1.2
Fiscal balance (% of GDP)	-4.1	-3.6	-3.6
Exports	194.7	223.9	246.3
Imports	158.5	183.9	201.4
Trade balance	36.2	40.1	45.0
Current account balance	15.7	17.1	15.3
Reserves (months of imports)	10.0	9.1	9.2
External debt	151.8	164.3	185.3
Debt service ratio (%)	9.6	8.0	8.8
Exchange rate RMB/US$ (end of period)	8.28	8.28	8.28

This economic assessment, prepared by EDC Economics, is valid at date of issue (January 2001), but always subject to review. Current positions are updated on EDC's web site www.edc.ca, under Market Intelligence.

China at a glance

Canadian opportunities:
Commercial agricultural and consumer goods; environment technologies; forest, construction, building material products and services; information and comunications technologies; education technologies and culture industries; energy; transportation; mining and minerals; financial services; medical and health services.

EDC's position:
Short-term – Good experience. Open without restrictions.
Medium/long-term – Good experience. Open.
Political risk insurance – Case-by-case.

Capital: Beijing
Language: Mandarin
Time difference: EST + 12 hours (+13 in winter)
Currency: RMB
Business hours: Monday-Friday 8:30 a.m. to 5:00 p.m.

Who to contact:

Canadian Embassy in China
Robert Mackenzie
Minister (Commercial)
Tel.: (011-86-10) 6532-3536
Fax: (011-86-10) 6532-4072
E-mail: robert.mackenzie@dfait-maeci.gc.ca

DFAIT
David Murphy
Deputy Director
China and Mongolia Division
Tel.: (613) 992-6129
Fax: (613) 943-1068
E-mail: dmurphy@dfait-maeci.gc.ca
Internet: www.dfait-maeci.gc.ca

Canada China Business Council
Fred Spoke
Executive Director
Tel.: (416) 954-3800
Fax: (416) 954-3806
E-mail: ccbc@istar.ca
Internet: www.ccbc.com

CIDA INC
Monika Vadeboncoeur
Program Manager
Tel.: (819) 997-0561
Fax: (819) 953-5024
E-mail: monika_vadeboncoeur@acdi-cida.gc.ca
Internet: www.acdi-cida.gc.ca

CIDA Bilateral
Douglas Henderson
Program Manager
Tel.: (819) 994-7441
Fax: (819) 953-5024
E-mail: douglas_henderson@acdi-cida.gc.ca
Internet: www.acdi-cida.gc.ca

EDC
Mark Bolger
Regional Manager for Asia and Pacific
Tel.: (613) 598-2508
Fax: (613) 598-2503
E-mail: mbolger@edc-see.ca

Alison Nankivell
Regional Director for China (Beijing)
Tel.: 011-86-10-6532-3536 ext. 3357
Fax: 011-86-10-6532-4072
E-mail: anankivell@edc-see.ca

China: An On-The-Ground Perspective

Are you interested in doing business in China? So is EDC. For this reason, a permanent EDC representative has been located in Beijing, China, since 1997.

Alison Nankivell currently holds this position. She notes that in addition to her position with EDC, her work in China from 1990-1995 with the Economist Intelligence Unit has endeared China to her as a second home. In fact, her children aged 8 and 10, have lived in China for as long as they have lived in Canada.

Her on-the-ground perspective has proven indispensable to EDC and its clients and she expects to be in China for another three years. Here, she shares with us her unique perspective on this market.

EW: Why did EDC decide to establish permanent representation in China?

A.N.: It seemed to make sense for a number of reasons. One, there is the huge potential of the market and large profile, both politically and economically, that China has with Canada. Despite the obstacles of doing business in this market, China remains a market of enduring interest to Canadian companies.

In general, any EDC officer or Canadian exporter who has worked on a China deal will tell you how difficult and prolonged business negotiations with a Chinese counterpart can be. This is particularly the case when a Canadian exporter is a SME (small- or medium-sized enterprise). Having someone on the ground to help those Canadian exporters is a value-added service EDC provides, which Canadian companies appreciate.

EW: What are your key responsibilities as EDC's permanent representative in China?

A.N.: As an EDC rep in the market, my duties fall into three broad categories: business development and representation; business facilitation and problem-solving; and credit risk analysis or assessment.

Business development is perhaps the most challenging aspect of my job, as developing relationships with Chinese companies, Chinese banks or Chinese government entities which may further Canadian and EDC's business interests is an evolutionary process requiring time, patience, and persistence. China's economy is changing rapidly and WTO (World Trade Organization) accession will only accelerate that change. A chief goal for me is to identify those Chinese companies which will potentially be winners out of this process of economic reform and forge relationships with them that will benefit Canadian businesses.

EW: If I'm a Canadian businessperson travelling to China, could I arrange to meet with you?

A.N.: I am happy to meet with any Canadian companies who make the trip to China! In fact, I highly value the opportunity to meet with Canadian companies because I see it as a means of ensuring I stay apprised of what Canadian companies' chief concerns and obstacles are in this market.

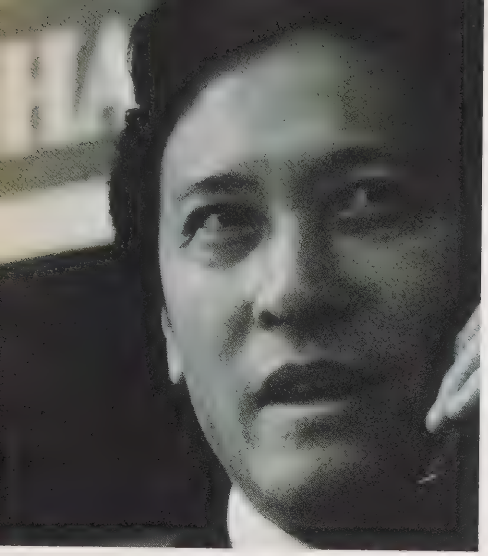
Otherwise, I may be focusing my efforts on that which does not serve the interests of either EDC or Canadian companies.

EW: Do you find language differences to be a common obstacle for Canadian-Chinese business relationships?

A.N.: Many Chinese officials in Beijing and other major cities like Shanghai and Guangzhou now speak English, but many more still appreciate your ability to communicate with them in their own language. In their view, it reflects the time and effort you have taken to understand their culture and system of business. In rural or smaller cities, it is indispensable to travel with at least one member of your business delegation who speaks Mandarin.

EW: From your perspective, what is the greatest challenge for Canadian businesses looking to break into the China market?

A.N.: The biggest challenge in breaking into the China market is, first, obtaining the key market information you require to evaluate whether it is worthwhile for your company to make a concerted push to develop business in China. There are just so many factors to consider: which region of China to focus on; who are the potential foreign-invested and local competitors; what are local consumers and buyers' tastes and preferences; what impact will ongoing government reforms, and in particular WTO, have on any plans you may have



to develop a business in China. These are all difficult questions to answer and China is still a relatively difficult place to collect both official government data, as well as commercial data, since there are not the same sources of public information or commercial advisory services available for China as we have in Canada.

While China is becoming more transparent as a place to do business, it still has a long way to go. At the end of the day, most companies find it very valuable to simply chat with experienced foreign managers already running a business in China to gain the kind of qualitative insight and information they need to make key decisions.

A second major barrier to doing business in China is the official and regulatory barriers. This is a very complex market in terms of government regulations and approvals. After 10 years in this market, I feel like I should have earned a China law degree based on the number of Chinese laws and regulations I have had to familiarize myself with simply to understand what foreign companies and financial institutions like EDC can and can't do in this market!

EW: Do you generally find that Chinese business people are interested in doing business with Canadians, or is it a bit of a "hard-sell"?

A.N.: Canada has an enviable profile in China, as any person from the United States or Europe will tell you. Despite being a relatively small player from a trade perspective, Canada is warmly regarded by China because of Norman Bethune's work in China during the Communist Revolution (Mao wrote a poem in honour of Bethune's contributions which every Chinese person over the age of 40 can recite to you.)

From a business perspective, we have always had a very positive and high profile, and EDC has been part of supporting this. CIDA and its significant aid program in China has also made a huge contribution to the general goodwill Canadians experience in this country.

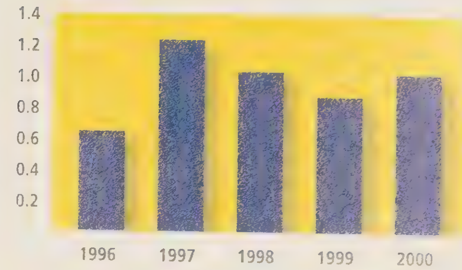
EW: What kind of advice can you offer Canadian businesses, particularly smaller businesses, for establishing successful business relationships in China?

A.N.: My advice to SMEs is think twice before you commit to China. I don't want to sound pessimistic but this is a very expensive place to do business from both a time and money perspective. The air travel alone could break a SME's budget and many trips are generally needed before a deal is finalized. On top of this, Chinese companies are highly demanding in terms of contract price, but will still expect after-sales service on par with large firms, so this is a cost that needs to be factored into a contract price.

It should also be noted that Chinese companies will usually require SMEs to put up bid or guarantee bonds for capital equipment contracts. This means that a SME has to have the financial strength and clout with its own Canadian bank to be able to put up these bonds (although, certainly EDC can help in this regard with its Performance Security Guarantees and Insurance).

I don't mean to suggest SMEs are not successful in China. There are many Canadian SMEs carrying out successful joint ventures or simply selling into the country on a very consistent basis. I think the secret to their success is that they start slowly and cautiously and build up their business in a logical way. Overly

EDC customers are increasingly choosing to do business in China



EDC business volumes, in billions

optimistic or enthusiastic sales forecasts have undermined even the largest foreign company investing or selling into China. It really depends on your sector but I would say the simpler your product, the easier it is to sell into this market.

EW: Can you suggest other resources for Canadian exporters or investors in China?

A.N.: There are multiple sources of China information. DFAIT and the Trade Commercial Service, including their excellent Web site *(Editor's note: see "China at a Glance," page 25)* is a great place to start. General Internet searches on either specific sectors in China or on larger Chinese companies also produce valuable information.

In addition, I find that the Canada China Business Council *(Editor's note: see "Inter.net.working," page 33)* is a highly useful source of intelligence and basic business advice. For more specialized inquires, Canadian or international market research firms with offices in China can be helpful as can legal firms who have active China practices. Also, one should not hesitate to touch base with other non-Canadian business groups such as the American Chamber of Commerce or the U.S. China Business Council, both of which have useful Web sites *(Editor's note: www.amcham.org.hk and www.uschina.org, respectively)*

Of course, I also think EDC is a good source of China intelligence, particularly when it comes to advising on the structure of potential transactions and what does and doesn't work in China in terms of financing options. ■

If you would like to contact Alison Nankivell, EDC Regional Director for China, full contact information is available on page 39.

Tell us what you think

Did you find this on-the-ground perspective helpful? Would you be interested in reading another on-the-ground perspective for Brazil or Mexico? Let us know by e-mailing exportwise@edc-see.ca.

Canpotex Reaps Success in China

By Cressida Barnabe

In the early 1980s, when Saskatchewan-based Canpotex Limited realized that millions of Chinese farmers weren't implementing a balanced approach to fertilization, Canpotex didn't just tell them how potash could help, they showed them.

With the help of an agronomist, Canpotex rented a field, divided it in two and applied the recommended mix of nitrogen, phosphate and potash to one side of the field and, on the other, farmed according to the current practices of the Chinese farmers. The results were astounding. The crop using the balanced fertilizer mix grew taller and produced significantly more than the other side of the field. This demonstration attracted the attention of farmers, government officials and the media.

From this single demonstration, held in the Guangxi Province in 1983, the program has grown into hundreds of demonstrations each year, called Harvest Field Days, in 27 of the 29 regions and provinces in China. Harvest Field Days attract thousands of people who come to learn more about balanced fertilization.

"We are proud of the positive contribution this program has had on the well-being of the Chinese farmers who are living off the land," explains Dwayne Dahl, Vice-President, Finance and

Potash is a general term covering several potassium compounds which are mainly used as fertilizer. Potash makes a plant stronger and healthier and helps it use nitrogen and phosphate more efficiently.

The Market Development Program started by Canpotex Limited in [illegible] in Southern China has yielded big results. Not only did farmers see the benefits of proper fertilization, they built their trust in a Saskatchewan-based company.

Administration. "It is part of our ongoing effort to educate farmers through a range of programs including funding university chairs; producing television, radio and written media for farmers; educating Chinese students; and hosting family events like the Harvest Field Days."

Growing lasting relationships

Wholly-owned by the Saskatchewan potash producers, Canpotex was founded in 1970 to market potash to offshore markets. In 1972, Canpotex attended a trade fair in Beijing, shortly after Canada had established diplomatic relations with China. Premier Zhou EnLai ordered officials to purchase goods from a number of the exhibitors. Canpotex had its first sale to China for 40,000 metric tonnes (MT) of which 28,000 MT were shipped within the year.

Over the years, the demand for potash soared as the Chinese agricultural sector matured and scientific farming, including balanced fertilization, became widespread. As a result, in 1995 and again in 2000, Canpotex sold two million MT to China (representing approximately 40 per cent of the Chinese market). Over the years, the company has seen fluctuations in sales, but China still remains its largest market.

Lack of transparency and continually changing import rules make China a challenging market.

"It's like trying to hit a moving target," describes Dahl. "You need to continually adapt to changes."

When China joins the WTO, there will be more changes to import channels and licensing requirements. *(Editor's note: see the article "China's Imminent WTO Accession," on page 22.)*

Given that their business is 100 per cent exports, Canpotex has worked closely with EDC to mitigate financial and political risks. The phenomenal growth in the market – 28,000 MT in 1972 to two million MT in 2000 – represents a greater financial risk for the company if its buyers fail to pay. The company is therefore careful to protect its shareholders. Canpotex's policy is clear: we don't load the ship without a workable letter of credit. The buyers are aware of this policy and respect it. EDC insurance is in place against political risk and possible default by various foreign banks. In the 17 years that Canpotex has been an EDC client, Canpotex has never had to file a claim for a transaction in China.

Canpotex has learned over the years that, in China, its reputation is its most valuable asset. "They believe that we have a good quality product and our customers are very loyal," shares Dahl. "We're proud that in 29 years of selling to China, we've never had a quality claim from a client – something unheard of in the market."

For Saskatchewan potash producers, the relationship forged over the years has resulted in greater volumes, lower production costs and higher returns. For Chinese farmers, the result is less waste of nitrogen and better yielding crops. A win-win situation for both. ■

Profile

Business: Marketing Saskatchewan potash to offshore markets

Established: 1970

Employees: 72

Key markets: China, Malaysia, Japan, Korea, Indonesia, Australia and Brazil

Export business: 100%

Annual sales: over 5 million MT

EDC relationship: Accounts Receivable Insurance

Geographic Feature

Travel & Trade Tips: Doing business in China and Hong Kong

By Brenda Brown

One of the keys to export success in China and Hong Kong is keeping the long-term personal relationships that are so much a part of doing business in this unique part of the world. That's not always easy in countries both deep-rooted in tradition and driven by a highly motivated and highly educated people. Here are some guidelines to help you steer the course.

Doing Business

- Take time to build relationships. Courtesy calls and personal selling are vital.
- Banking contacts are important.
- Use existing contacts to help refer you when establishing new business relationships.
- The Chinese are famous for "saying it without saying it." Learn to read between the lines.
- The status of the person who makes first contact is critical. Don't insult the potential customer by sending someone of lower rank.

Meetings

- Punctuality is essential.
- The first person entering the room will be their highest official; they will assume the same of you.
- Shaking hands is widely accepted but representatives may nod or bow instead. Take their lead.
- Those from China and Hong Kong dislike being touched by strangers. Do not make any body contact.
- The exchange of business cards is a formal process. Try to have one side of the card printed in English, the other printed in Chinese, use "simplified" not "classical" characters for mainland China and "classical" characters for Hong Kong. Present business cards with both hands and, when you receive one in return, take time to read it. Do not write on the card or casually throw it on the table or put it in your back pocket.
- Use family names and appropriate titles unless told differently. A family name in China is the first name on the business card, i.e. Wang Guanxi would be called Mr. Wang. Some Chinese have adopted Western first names which will be readily evident on their business card.
- English is not necessarily spoken in China. Ask for a translator or bring one with you.
- In Hong Kong, negotiations may be slow and detailed, but efficient. Send senior people with technical expertise prepared to function as a team and make decisions on the spot. Business deals may be sealed with a handshake alone so be prepared to be flexible.
- In China, negotiations may not be so straightforward. A contract is sometimes considered a draft, subject to change. If the Chinese are no longer interested in pursuing a deal, they may not tell you. Instead, they may become increasingly inflexible, forcing you to break off negotiations.
- "Yes" may not mean agreement. It often means, "I hear you."
- "No" is not generally said. Instead you may hear "I will have to wait," or "this may be difficult."

Gifts

- Gift giving is a tradition communicating respect and friendship. Be prepared to present a small gift of nominal value at the first meeting but avoid giving timepieces such as watches or clocks.
- Present the gift with both hands. Don't expect it to be opened right away nor should you open yours if one is received.
- Avoid wrapping gifts in white, black or blue, which are Chinese colors of mourning. Never give anything in sets of four (e.g., dishes), which is the number associated with death.

Dining and Entertainment

- Business is not usually discussed during meals, except indirectly.
- Arrive exactly on time.
- Spouses are not included.
- Be prepared to make a simple, polite toast to friendship, success and cooperation.
- Leave some food on your plate during each course to honour the generosity of your host.
- If you are the guest of honour, leave shortly after the meal is finished because no one can leave until you do.

The Accidental Customer

By Cressida Barnabe

Telelink out-manoeuvered the competition by being one of the first Canadian service bureaus to offer web-enabled services. Vice-President and CEO Cindy Roma, shown (from left) with principal shareholders Sydney Ryan, Director of International Sales and Marketing, and Barbara Ryan, President.

Cindy Roma, Vice-President and CEO of Telelink, The Call Centre Inc., describes becoming an EDC customer as a happy accident. But the growth of the company and its move into exporting was no accident. The company mapped out its future, invested in resources and seized opportunities along the way.

Founded as a traditional answering service with two employees in 1966, Telelink, The Call Centre Inc. has since grown to become one of the leading-edge call centres in North America. Over the years, this company maintained its focus on providing award-winning customer service while having the foresight to automate and expand into new technologies – long before the competition. The company can boast being one of the first service bureaus in Canada to offer web-enabled services to their customers.

While attending the Canada/U.S.A. Businesswomen's Summit in Toronto in 1999, Cindy Roma confirmed what she had known all along; the company had a rich commodity – its people.

At the summit, Roma sealed her first export deal. U.S. companies were impressed with her highly trained, university-educated staff; something many call centres struggle to retain. "I was amazed at how easy it was to do business with U.S. companies, but we knew there were risks."

When Sydney Ryan, Director of International Sales and Marketing and a principal in the company, was working on a potential export contract with a large company in Atlanta, she looked for assistance with putting the contract together. *(Editor's note: for tips on structuring export contracts, see page 4.)*

One call led her to Darrell Spurell, EDC's Business Development Manager in St. John's, Newfoundland, who agreed to meet with her and Roma to discuss EDC's range of products and services. During the meeting, he explained the benefits of EDC's accounts receivable insurance, which protects companies against 90 per cent of losses if their foreign buyers fail to pay, and Roma signed virtually on the spot through the Emerging Exporters Team, EDC's small business team which specializes in helping small businesses with export sales of less than $1 million. (The team can be reached by calling 1-800-850-9626.)

EDC is on her top-10 list as one of the most tremendous finds of the year. "EDC allows me to sleep at night. I don't have the same worries about collecting from the United States. that I would have if our receivables weren't protected," explains Roma. "I consider it one of the best things I've found – a real jewel."

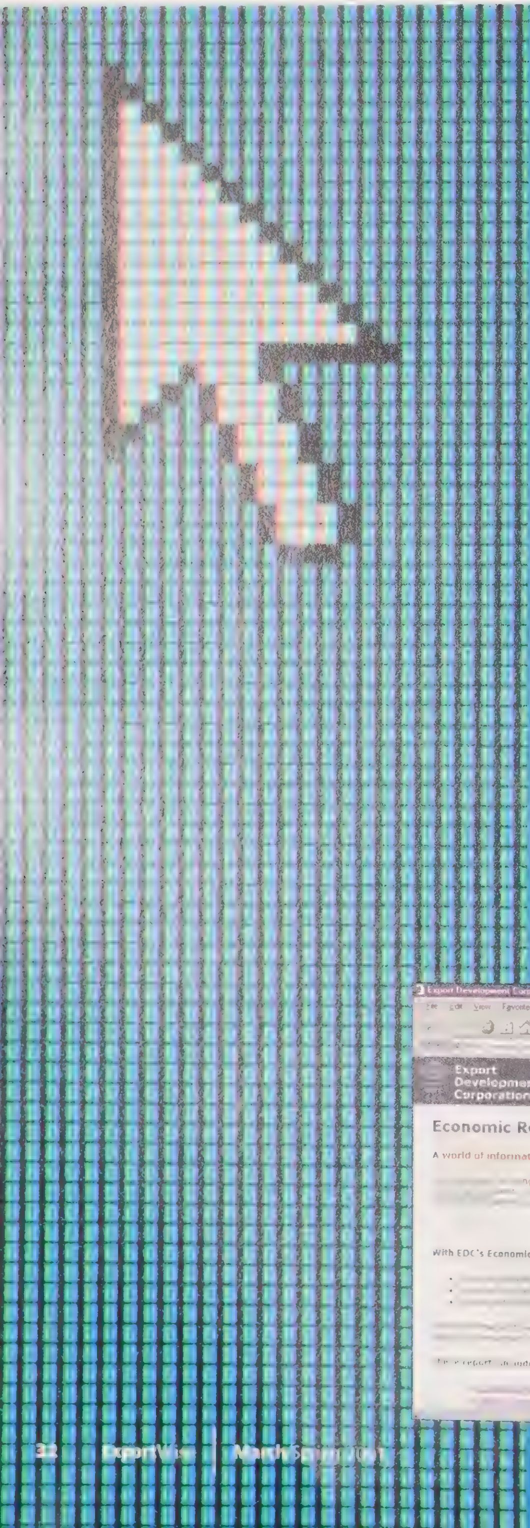
"It's hard when you're just getting started in exporting to find the right resources and you need people to help guide you in order not to make mistakes," she explains. "That's why I now ask business colleagues if they have EDC insurance." Roma feels that by sharing her experiences, she can help make sure others protect themselves against the risks of exporting. ■

Profile

Business: Multi-media customer relationship management service
Established: 1966
Employees: 62
Export business: 5% (2000)
Export markets: Atlanta, Georgia; New England; Washington, D.C.
EDC relationship: Accounts Receivable Insurance
Contact: www.thecallcentreinc.com

Innovative e-Services for the Exporter

By Joan Healey and Kevin Scott



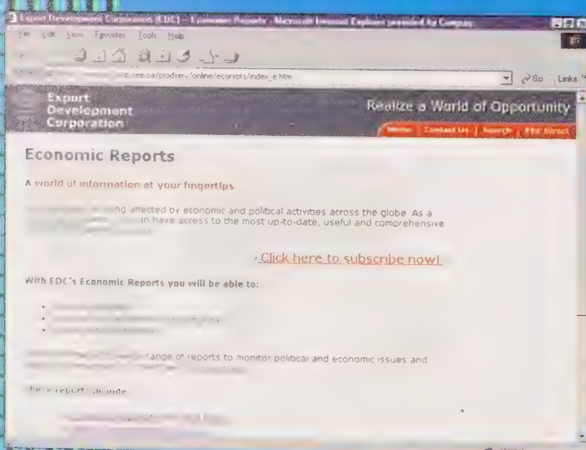
Enjoy evergreen "Economic Reports"

EDC's "Economic Reports" is a valuable on-line collection of continuously updated information on more than 200 markets, including:

→ commodity market monitoring
→ foreign markets data
→ individual country risk assessment
→ Canada's export performance
→ political risk analysis
→ global capital flows

This service also includes a special feature that will notify you when the information on your country of interest has been updated.

EDC finance and insurance customers can enjoy free access to Economic Reports on the EDC Direct page of EDC's web site. This service can also be accessed by Canadian residents through an on-line subscription, priced at $250 a year. If you would like to know more about this powerful information tool please visit www.edcinfo.ca/e-reports.



Expand your options with "e-xport Check"

EDC's **"e-xport Check"** is two services in one, providing you with information on over 30 million foreign buyers located in the United States, Mexico, and 10 countries in Western Europe.

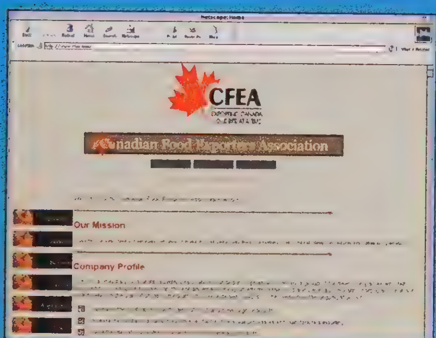
The first provides you with the security of the most up-to-date credit information on your prospective buyer through an on-line Dunn & Bradstreet Business Information Report on foreign buyers. The second provides you with the knowledge of whether EDC considers this buyer insurable for the amount of your future transaction.

"e-xport Check" services will be available to Canadian companies separately or in a competitively priced combination. If you are interested in learning more about this e-service, please visit **www.edcinfo.ca/exportcheck** to register.

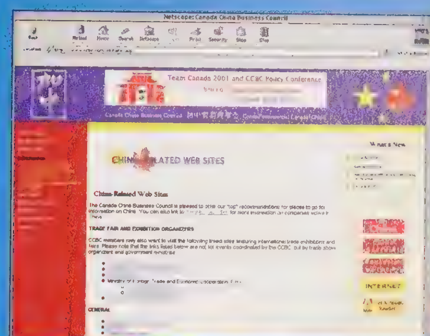
China and Agri-Food
Information Resources

By Brenda Brown

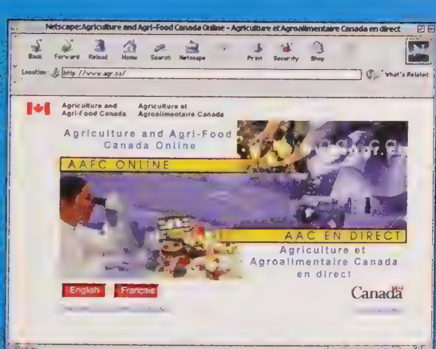
The Web sites highlighted below provide valuable information to complement this issue's geographic and industry features: China (page 22) and Agri-food (page 12).



Canadian Food Exporters Association
www.cfea.com
Information on global marketplaces, export assistance, trade mission opportunities, newsletters, training seminars and workshops.



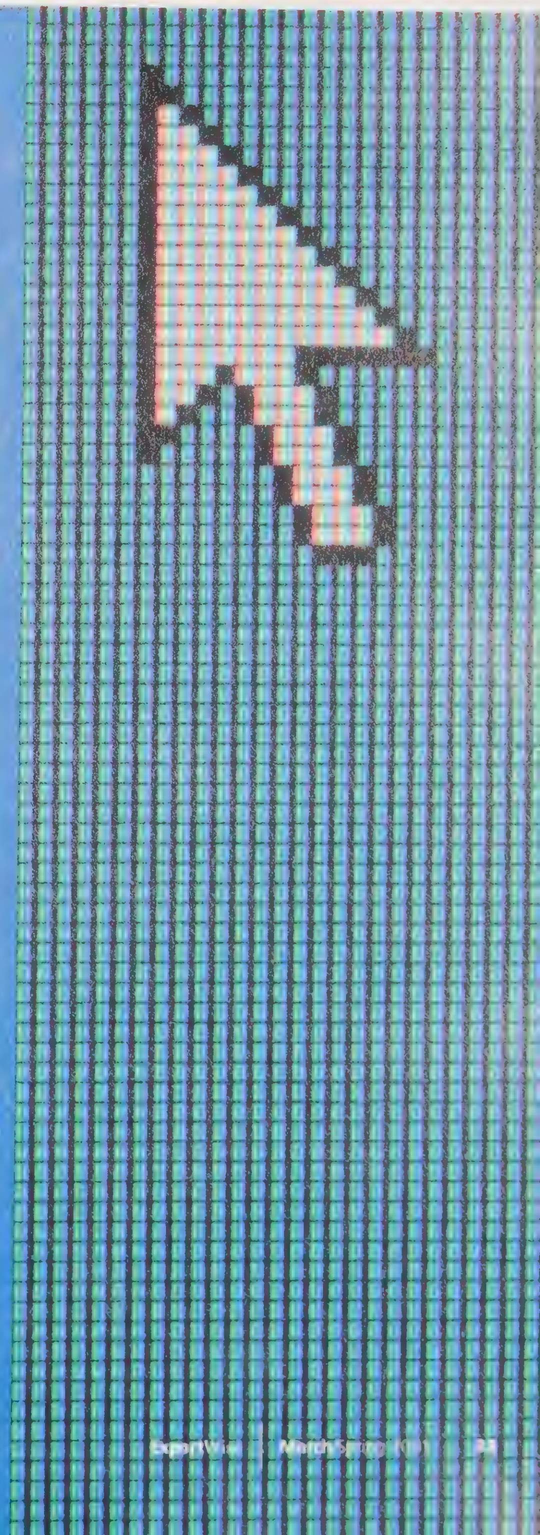
Canada China Business Council
www.ccbc.com
Makes recommendations on the top 10 sources of information on China; provides links to trade fairs and exhibitions; outlines government and financial support; and provides tips on doing business in China.



Agriculture Canada
www.agr.ca
Contains market research, legislation governing Canadian agriculture, and information on such topics as: dairy, poultry and red meat; tackling environment and resource planning; and, structuring farm finances.

China Council for Promotion of International Trade
www.ccpit.org
Provides overview of China's economy (updated every two weeks); list of fairs and exhibitions; a business guide; projects database and reports on such topics as Absorption of Foreign Investment; and a Survey of Economic and Social Development.

Brenda Brown is a web editor with EDC's e-business team. She can be reached at bbrown@edc-see.ca.



EDC offers a wide range of financial products to Canadian companies and their customers abroad. The following is a summary of these products.

Credit Insurance

Global Comprehensive Insurance (GCI) – protects domestic and/or export accounts receivable against risk from certain events including: default, buyer bankruptcy, repudiation, non-transferability of funds, termination/cancellation of contract, or political disturbances; improves exporter's ability to secure working capital financing from bank.

Export Credit Insurance (ECI) – same as Global Comprehensive, except for small businesses

Documentary Credit Insurance (DCI) – protects Canadian banks against risk of non-payment by foreign banks.

Specific Transaction Insurance (STI) – coverage against contract frustration and non-payment risks for same events as GCI but coverage is limited to one specific contract (cover also available for pre-receivable period, [illegible] contracts as well as film and [illegible]vision rights).

Sub-Supplier Domestic and Foreign Risks – covers sub-suppliers against contract frustration and non-payment risks.

Equipment (political risk insurance) – protects Canadian exporter's equipment at a job site against loss resulting from certain political risks.

Financing

Direct Loan – EDC lends money to foreign corporations and government entities to enable them to buy goods and services from Canadian exporters.

Line of Credit – EDC lends money to a foreign bank that in turn lends to buyers of Canadian goods and services. Provides fast and simple financing for small transactions. (See pages 36-37.)

Note Purchase – EDC purchases promissory notes on a non-recourse basis issued by the buyer to the exporter.

Purchase of Receivables – EDC purchases exporter's receivables at a certain fixed discount.

CIBC Grow Export – EDC guarantees 50 per cent of loans made by CIBC to small, knowledge-based companies with specific export contracts.

Leasing – EDC often participates as a debt provider to the lessor.

Equity – assists Canadian companies in securing export opportunities through the provision of medium-term investment capital.

Project Finance – used for large infrastructure projects as well as other large projects for which direct guarantee of project sponsor is not available.

Master Accounts Receivable Guarantee (MARG) – allows banks to provide operating lines secured by exporter's foreign accounts receivable.

Small Exporter Guarantee Framework – provides guarantees to Canadian banks for loans made to foreign governments and banks; increases financing options available to Canadian small business exporters by risk-sharing with banks.

Northstar Trade Finance – a public-private sector partnership providing fast and efficient buyer financing for smaller capital goods export transactions.

Scotia Americas Capital Equipment Program – used by Canadian companies to finance the purchase of capital equipment in Argentina, Chile, El Salvador, Jamaica or Trinidad and Tobago.

Contract Bonding

Bid Security Guarantee (BSG) – protects banks from any wrongful calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

Direct Surety Bond Support – by providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

Political Risk Insurance (PRI) – protects Canadian investors against political risks on projects of benefit to Canada.

CLAIMS PAID

January 1, 2001 – January 31, 2001

Companies	Claims	Cdn $ Total
80	97	$4,468,419

Export Markets	Count
Africa & Middle East	1
Asia & Pacific	2
Europe	5
South America	4
U.S. & Caribbean	85

Risks	
Default	69
Insolvency	28
Call of Bond	0
Repudiation	0
Political and Transfer	0
Termination of Contract	0
Import Permits	0

Payments	
Under $5,000	38
Between $5,001 and $100,000	51
Between $100,001 and $1 million	8
Over $1 million	0

ExportWise

Editor
Julie Harrison
jharrison@edc-see.ca

Production Assistant/ Circulation
Deborah Chapman
dchapman@edc-see.ca

Creative Director
Phil Jones
pjones@insight communications.ca

Translation
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The Lowe-Martin Group

Contributors
Cressida Barnabe, Mark Bolger, Brenda Brown, Deborah Chapman, Donna Choquette, Jane Daly, Tejinder Dhillon, Andrew Douglas, Carol Fragiskos, A. Ian Gillespie, Linda Graupner, Joan Healy, Toby Herscovitch, Cathy Lynch, Derek Johnston, Chantal Lalande, Stephen Poloz, Alison Nankivell, Kevin Scott, Patricia Smith, Jim Watson.

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

EDC
151 O'Connor Street,
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

E-mails to the Editor

→ Thank you for the valuable insights into the Japanese market in the Winter issue of *ExportWise*. I was unaware of the amendments to Japan's Building Standards Law, effectively removing several key import barriers for Canadian construction products.

Nicholas Heins
President, Prestige Fence
Ottawa, Ontario

→ I have just finished reading the December issue of *ExportWise* and have had an opportunity to reflect on our previous year's success in exports throughout the world.

A large part of the success that we have experienced can be directly attributed to the exceptional service that we received from both the EDC underwriting and the business development sector.

Marti Anne Falcone, in EDC underwriting, has made the transition and implementation an absolute seamless process. Her commitment to quick approvals and willingness to help out in the transition and training have been priceless.

For me to admit this is quite a remarkable thing. A few years back we attempted a relationship with EDC, but found the people at the time to be very hands-off and unwilling to make any sacrifices in time to make the products work for our particular needs. This resulted in leaving us totally frustrated with the whole process and very unaccommodating towards EDC products in general.

So when we were approached by Tony Gzik, in business development at EDC, my initial response was to say "thanks, but no thanks." However he persisted, and in the end I was pleasantly surprised.

I write this letter because I feel that exceptional people like Marti Anne Falcone and Tony Gzik should be recognized for their exemplary customer service. Kudos to them both.

We look forward to a long and prosperous relationship with EDC.

Ben Fuschino
European Sales Manager, Hyd-Mech Group Ltd.
Woodstock, Ontario

→ I wish to congratulate *ExportWise* for its valuable cover story on services exports ["Is the Service Industry Canada's Next Gold Mine?" *ExportWise* Winter/December 2000].

All too often, discussions of international trade in services assume an abstract quality, simply because expertise is less tangible than a manufactured export – or else, because the explosive growth in Canada's service industry is still not widely enough appreciated.

Your vivid description of several successful service export firms have helped to raise public awareness of the importance of international services trade. No doubt they will inspire even more success stories in the future.

Mark Crawford
Trade Policy Analyst
Services Trade Policy Division
Department of Foreign Affairs and International Trade

→ In a time when Canada's level of health care expertise is often labelled in popular media as less than adequate, it is refreshing to read Skip Swartz of Interhealth Canada (Winter/December issue of *ExportWise*) state that "Canadian medical personnel are world-renowned for providing superior patient care and for their innovative research into cures for diseases such as heart failure and diabetes." Indeed, as a researcher myself, I am proud of Canada's advancements and that other populations worldwide also benefit from this expertise.

Ian Graham, PhD
Principal Investigator, Clinical Epidemiology Unit, Loeb Health Research Institute
Medical Research Council Scholar, Assistant Professor of Medicine & Epidemiology and Community Medicine, University of Ottawa

Tell us what you think
ExportWise welcomes all feedback on articles, as well as suggestions for story ideas.

E-mail the editor at: **exportwise@edc-see.ca** or mail a letter to EDC, 151 O'Connor St, Ottawa, Canada K1A 1K3, attention: *ExportWise*.

Corrections
In the last issue of *ExportWise*, "From EDC's President" included an incorrect phone number for requesting a copy of EDC's brochure on corporate social responsibility initiatives. The correct phone number is (613) 598-6850 in Ottawa or toll free at 1-888-641-9204.

How are we doing?
Thank you to all the readers who took the time to complete the survey "How are we doing" included in the last issue of *ExportWise*. Your feedback is invaluable for helping guide our editorial content.

Lines of Credit

EDC offers many forms of export financing to facilitate the purchase of Canadian goods and services by buyers in export markets. These facilities fall into two broad categories: supplier credit financing and buyer credit financing.

One example of supplier credit financing is a note purchase agreement. Under such an agreement, EDC purchases from an exporter a series of promissory notes issued by a foreign buyer to the exporter upon the sale of goods or services.

Buyer credit financing includes direct loans and lines of credit. Direct loans are a financing arrangement between EDC and a buyer, or a borrower on behalf of a buyer, for a predetermined transaction. Loans usually involve large transactions with long repayment terms.

Lines of credit are a streamlined form of financing in which EDC lends money to a foreign bank, institution or buyer, which then on-lends the necessary funds to foreign buyers of Canadian goods and services. Interest rates, repayment terms and other details are prearranged between EDC and the foreign borrower, which speeds up turnaround time. Transactions supported under lines of credit are usually valued at between US$50,000 and US$5 million. EDC currently has 52 lines of credit, providing one form of access to export financing for buyers in some 27 countries.

Listed below are the details and contacts for the lines of credit which exporters have found most useful.

It is important to note that:

- **EDC's financing and insurance services extend beyond countries in which EDC has established lines of credit.**
- **These lines of credit are one of several ways in which EDC will do business in these markets.**
- **If you are thinking about exporting but have never used one of EDC's lines of credit, it is wise to contact EDC as early as possible.**

For more information on how EDC export financing can help you close a deal abroad, contact the regional office nearest you by calling **1-888-332-3777**.

Categories:

Overseas Area Code = 011 / 1 – Borrower / 2 – Signing amount /3 – Repayment terms / 4 – Buyers' contact with borrower /5 – Borrowers' contact in North America

Lines of Credit

Mexico, Central & South America

Argentina

1) **Banco Francés**
2) US$10 million
3) [illegible]
4) [illegible] Raul Genou, Regional Manager
[illegible] and Asia Pacific
[illegible]
[illegible]

1) [illegible] Energy, Argentina Branch)
2) [illegible]
3) [illegible]
4) [illegible]
Tel.: 5411-4310-[illegible]
Fax: 5411-4310-4367
jscaglia@pan-energy.com

1) **Telecom Argentina STET-France Telecom S.A.**
2) US$72.1 million
3) 3 to 8.5 years
4) Mr. Ricardo Lospinnato, Manager
Financial Operations
tsilveyr@ta.telecom.com.ar
Ms. Carolina Campos, Financial Operations
Tel.: 5411-4968-3917
Fax: 5411-4312-9472
ccampo1@ta.telecom.com.ca

1) **Telefónica de Argentina S.A.**
2) US$100 million
3) 3 to 8.5 years
4) Mr. Juán López Basilvaso
Director of Finance
Ms. Antonieta Martino/
Mr. Raul H. Rolandi, Finance
Tel.: 5411-4325-0190
Fax: 5411-4325-1920
rolandir@telefonica.com.ar

1) **Total Austral S.A.**
2) US$50 million
3) 2 to 8.5 years
4) Mr. Alain Petitjean, Financial Controller
Tel.: 5411-4346-6621
Fax: 5411-4346-6697
alain.petitjean@total.com
5) Mr. Carlos A. Coccioli, Treasurer
Tel.: 5411-4346-6623
Fax: 5411-4346-6697
carlos.coccioli@total.com

1) **Transportadora de Gas del Norte S.A.**
2) US$5 million
3) 2 to 5 years
4) Mr. Orlando Paolini
Tel.: 5411-4959-2167
Ms. Dora Zapolski
Tel.: 5411-4959-2002
Fax: 5411-4959-2110

1) **YPF, S.A.**
2) US$25 million
3) 2 to 8.5 years
4) Mr. Enrique Waterhouse/
Ms. Dora E. Acosta Vásquez
Tel.: 5411-4329-5685
Fax: 5411-4329-5838
ewaterho@email.ypf.com.ar

Argentina, Brazil, Colombia and Uruguay

1) **BankBoston**
2) US$25 million
3) 2 to 8 years
4) Mr. Julio Laffaye, Trade Finance Manager
International Services (Argentina)
Tel.: 5411-4346-2112
Fax: 5411-4346-3209/343-7303

Mr. Sergio Schirato (São Paulo)
Tel.: 5-511-3881-6415
Fax: 5-511-3881-6430

Mr. Miguel de Pombo (Bogotá)
Tel.: 571-313-2255/3455
Fax: 571-313-3536

Mr. José Baniela (Montevideo)
Tel.: 598-296-0127
Fax: 598-296-2209

5) Mr. David Ames, Assistant Vice-President
International Corporate Finance
Tel.: 617-434-5178
Fax: 617-434-1188

Brazil

1) **Banco do Brasil**
2) US$25 million
3) up to 5 years
4) Mrs. Rosana Porto Feirosa
Tel.: 55-11-3066-9021
Fax: 55-11-3066-9029

1) **Petrobrás**
2) US$15 million
3) up to 5 years
4) Mr. Hernani Fortuna
Head, Investment Finance
Tel.: 5-521-534-1450
Fax: 5-521-534-4278

1) **Unibanco – União de Bancos Brasileiros**
2) US$15 million
3) 2, 3, 4 or 5 years
4) Ms. Silvia Nucci
Manager International Relations/
Ms. Patricia Urbano
Manager, Corresponding Banking
Tel.: 5-511-867-1684/4321/1900
Fax: 5-511-815-4484/814-0528/867-1689
5) Mr. Durval Araujo (New York)
Tel.: 212-207-9426
Fax: 212-754-4872

Mr. Marcos Pereira (Miami)
Tel.: 305-372-0100
Fax: 305-350-5622

Colombia

1) **Banco Cafetero**
2) US$10 million
3) up to 8.5 years
4) Mr. Luis Hernando Manrique
Head Special Lines Department
Tel.: 571-341-1511 (ext. 3700)
Fax: 571-284-2097/286-8893

1) **Cementos del Caribe**
2) US$5 million
3) up to 5 years
4) Mr. Ernesto Ritzel, Treasurer
Tel.: 575-355-6069
Fax: 575-355-9829
eritzel@caribe.com.co

Chile

1) **Codelco**
2) US$70 million
3) 5 years
4) Mr. José Antonio Alvarez
Vice President Finance
Tel.: 562-690-3648
Fax: 562-690-3669

Honduras, Costa Rica, El Salvador, Guatemala and Nicaragua

1) **Central American Bank for Economic Integration (CABEI)***
2) US$20 million
3) 5 years
4) Mr. Carlos Mairena (cmairena@bcie.hn)
Mr. Oscar Borjas (oborjas@bcie.hn)
(Tegucigalpa, Honduras, Headquarters)
Tel.: 504-228-2182/2134
Fax: 504-228-2135

Lic. Ronald Martínez Saborio
Mr. Dennis Sánchez Acuña (Costa Rica)
Tel.: 506-253-9394
Fax: 506-253-2161
dsanchez@bcie.org

Mr. Roberto Pereira
(El Salvador)
Tel.: 503-260-3335
Fax: 503-260-3276
framirez@bciesv.bcie.hn

Lic. Luis Fernando Andrade (Guatemala)
Tel.: 502-332-6428
Fax: 502-331-1457
jmdiaz@bciegt.bcie.hn

Ing. Roger Arteaga Cano (Nicaragua)
Tel.: 505-266-4120 to 4123
Fax: 505-266-4143/4125
mbuitrag@bcie.org

* CABEI is closed to new projects in the public sector/Government of Nicaragua.

Mexico

1) **Banca Serfin, S.A.**
2) US$20 million
3) 5 years
4) Mr. José Carrassó Arnaiz
Vice-President, International Division
Tel.: 525-512-1009
Fax: 525-625-5613
5) Mrs. Paloma Healey
Tel.: 416-360-8900
Fax: 416-360-1760

1) **Bancomer, S.A.**
2) US$75 million
3) 5 to 8 years
4) Ms. Cecilia Sáenz y Sáenz
Vice-President, Import Financing
Tel.: 525-621-3861/3491
Fax: 525-621-4758

1) **Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)**
2) US$125 million
3) 5 to 8 years
4) Mr. Eugenio MacGregor, Vice-President
International Banking
Tel.: 52 54 81 62 24
Fax: 52 54 81 60 77
emacgreg@bancomext.gob.mx
5) Mr. Marco Espinosa
Trade Commissioner of Mexico (Toronto)
Tel.: 416-867-9292
Fax: 416-867-1847

1) **Banco Nacional de México, S.A. (Banamex)**
2) US$125 million
3) 5 to 10 years
4) Ms. Mariana Lerdo de Tejeda Sánchez Comercio Exterior
Tel.: 525-720-7077
Fax: 525-720-7315
5) Mr. Joseph Clarke (New York Office)
Tel.: 212-303-1431
Fax: 212-303-1470
jclarke@banamex.com

1) **Banco Nacional de Obras y Servicios Públicos, S.N.C. (Banobras)**
2) US$20 million
3) 5 to 8 years
4) Lic. Abelardo Bravo Herrera, Gerente Operaciones Bancarias Internacionales
Tel.: 525-723-6000
Fax: 525-723-6235

1) **Comisión Federal de Electricidad (CFE)**
2) US$50 million
3) 5 to 8 years
4) Mr. Ramón Benitez Galarza
Head, Credit Operations Department
Tel.: 525-705-0571/229-4502
Fax: 525-229-4703
rbg84069@cfe.gob.mx

1) **Hylsa, S.A. de C.V.**
2) US$20 million
3) 5 years
4) Mr. Manuel Moguel, Treasury
Tel.: 528-328-1220
Fax: 528-328-1885
mmoguel@hylsamex.com.mx

1) **Nacional Financiera, S.N.C. (Nafin)**
2) US$28 million
3) 5 to 8 years
4) Mr. Jorge Muñoz Cuevas
Manager Bilateral Financing
Tel.: 525-325-7022/7023
Fax: 525-325-6496

1) **Petroleos Mexicanos (Pemex)**
2) US$50 million
3) 3 to 10 years
4) Ing. Pablo Toussain Guerra
Deputy Manager, Credit Finance
Tel.: 525-722-2500 ext. 57350
Fax: 525-254-1896
ptoussai@dcf.pemex.com
5) Mr. Alberto Hinojos, Vice President
Finance and Administration
Tel.: 713-430-3110
Fax: 713-430-3312
ahinojos@itsinc.com

1) **Teléfonos de México, S.A. de C.V. (Telmex)**
2) US$100 million
3) 3 to 7 years
4) Mr. Gustavo León Méndez, Treasury
Tel.: 525-222-1153/1154
Fax: 525-203-5972
glmendez@telmex.net

Peru

1) **Banco Wiese Ltdo.**
2) US$15 million
3) 2 to 5 years
4) Mr. Eduardo Lizarzaburu Cuba
Financing Intermediation Division
Tel.: 511-428-6000
Fax: 511-426-9414
elizarzaburu@wiese.com.pa
Mr. Javier Román
Tel.: 511-426-6231
Fax: 511-428-3163
jroman@wiese.com.pa

Trinidad & Tobago

1) **Central Bank of Trinidad & Tobago**
2) US$15 million
3) up to 8.5 years
4) Ms. Cara Mae Farmer
Manager, Banking Operations
Tel.: 868-625-4835/623-4715
Fax: 868-625-2468
cfarmer@central_bank.org.tt

Venezuela

1) **BARIVEN, S.A./Petróleos de Venezuela, S.A. (PDVSA)**
2) US$50 million
3) 2 to 8.5 years
4) Jesús Bello, Finance
Tel.: 582-201-4761
Fax: 582-201-4605
5) Mr. Philip Limon, Trade Financial Analyst
PDVSA Services, Inc. (Houston, Texas)
Tel.: 281-588-6406
Fax: 281-588-6287
lemonp@pdvsa.com
fnt1h@psi.pdv.com

Africa & Middle East

Algeria

1) **Banque Algérienne de Développement (BAD)**
2) US$100 million
3) 3 or 5 years
4) Mr. Saddek Alilat, Director
Tel.: 213-21-55-41-09
Fax: 213-21-55-55-20

1) Sonatrach
2) US$70 million
3) 3 or 5 years
4) Mr. K. Benaouda
Tel.: 213-21-69-33-08
Fax: 213-21-60-53-22

Egypt

1) **United Bank of Egypt**
2) US$10 million
3) 3 to 8.5 years
4) Mr. Atef Eldib, Executive Manager
Credit and Marketing Department
Tel.: 011-202-792-0149
Fax: 011-202-792-0153

Israel

1) **Bank Hapoalim B.M.**
2) US$10 million
3) 3, 5 or 7 years
4) Ms. Yona Rosenberg
Foreign Trade Department
Tel.: 972-3-567-3424
Fax: 972-3-567-4548

1) **Bank Leumi Le-Israel B.M.**
2) US$10 million
3) 3, 5 or 7 years
4) Ms. Liorah Tidhar, First Vice-President
Trade & Project Finance
Tel.: 972-3-514-7373
Fax: 972-3-514-7865

1) **United Mizrahi Bank Limited**
2) US$10 million
3) 3, 5 or 7 years
4) Mr. Chana Chefer, Foreign Trade Department
Tel.: 972-3-567-9011
Fax: 972-3-567-9028

Lebanon

1) **Byblos Bank SAL**
2) US$10 million
3) up to 8.5 years
4) Mr. Laurent J. Hawath
Tel.: 961-335-200
Fax: 961-338-430
byblosbk@byblosbank.com.lb

1) **Credit Libanais SAL**
2) US$10 million
3) 3 to 8.5 years
4) Mr. George Khouri
Tel.: 961-158-2390
Fax: 961-160-2615

South Africa

1) **First National Bank of Southern Africa Limited/Rand Merchant Bank**
2) US$25 million
3) 3 to 8.5 years
4) Mr. Willie Coetzee
International Project Finance
Tel.: 2711-282-8369
Fax: 2711-282-8318
willie-coetzee@rmb.co.za

1) **Industrial Development Corporation of South Africa/Impofin (Pty) Limited**
2) US$15 million
3) 3 to 8.5 years
4) Mr. Leon Potgieter, Deputy General Manager, Industrial Development Corporation of South Africa Ltd.
Tel.: 2711-269-3266
Fax: 2711-269-3121
leonp@idc.co.za

1) **Nedcor Bank Ltd.**
2) US$10 million
3) 3 to 8.5 years
4) Mr. David N. Fienberg, Head
International Finance Unit
Tel.: 2711-630-7444
Fax: 2711-630-7146

1) **The Standard Bank of South Africa Limited**
2) US$10 million
3) 3 to 8.5 years
4) Mr. Gerald Nolan
Senior Manager, International Finance
Tel.: 2711-636-5062
Fax: 2711-636-3181
nolang@scmb.za

Tunisia

1) **Ministry of International Cooperation and Foreign Investment**
2) US equivalent of Cdn$100 million
3) up to 10 years
4) Mr. Abdelhamid Bouhawala
Tel.: 216-1-798-522
Fax: 216-1-799-069
bo@mci.gov.tn

West Bank and Gaza Strip

1) **Egyptian Arab Land Bank**
2) US$3 million
3) up to 5 years
4) Mr. Fouad Jabr, General Manager
Tel.: 972-2-298-5958
Fax: 972-2-298-5958

Europe

Estonia

1) **Hansa Leasing**
2) US$4 million
3) 5 years
4) Mr. Raul Rukis, Manager, Funding and Foreign Relations Department
Tel.: 372-6-131-805
Fax: 372-6-131-379
raul.rukis@hansa.ee

Turkey

1) **Turk Exim Bank**
2) US$50 million
3) 3 to 7 years
4) Mr. Ertan Tanriyakul
Assistant General Manager
Tel.: 90-312-425-6504
Fax: 90-312-425-2947
ogunduz@eximbank.gov.tr

Ukraine

1) **State Export Import Bank of Ukraine**
2) Cdn$20 million
3) 3 to 10 years
4) Ms. Tetyana M. Kutuzova
Head of Department
Tel.: 380-44-247-8925/26
Fax: 380-44-247-8928/8082
Telex: 131258 RICA

Asia & Pacific

China, People's Republic of

1) **Bank of China**
2) US$200 million or its equivalent in Cdn. or other acceptable foreign currencies
3) up to 10 years
4) Ms. Liu Huijun, Treasury Department
Tel.: 86-10-6601-4077
Fax: 86-10-6601-4037

1) **Bank of Communications**
2) US$25 million
3) up to 10 years
4) Ms. Liu Ganghua, Credit Department
Tel.: 86-21-6275-1234 ext. 2343
Fax: 86-21-6275-1363

1) **China Construction Bank**
(previously People's Construction Bank of China)
2) US$100 million
3) up to 10 years
4) Mr. Tang Ma, Project Manager
Project Finance Division
Tel.: 86-10-6759-8557
Fax: 86-10-6759-8549

1) **Industrial and Commercial** Bank of China
2) US$25 million
3) up to 10 years
4) Ms. Qin Lei, International Finance Division, International Department
Tel.: 86-10-6610-6022
Fax: 86-10-6610-6038

Indonesia

1) **P.T. Indah Kiat Pulp & Paper Corp.**
2) US$25 million
3) 3 to 10 years
4) Mr. Paulus Lucas
Assistant Manager, Finance
Tel.: 62-21-392-9266
Fax: 62-21-392-6179
paulus_lg@app.co.id

1) **P.T. Pabrik Kertas Tjiwi Kimia**
2) US$10 million
3) 3 to 10 years
4) Mr. Paulus Lucas
Assistant Manager, Finance
Tel.: 62-21-392-9266
Fax: 62-21-392-6179
paulus_lg@app.co.id

1) **P.T. Lontar Papyrus Pulp & Paper Industry**
2) US$20 million
3) 3 to 10 years
4) Mr. Paulus Lucas
Assistant Manager, Finance
Tel.: 62-21-392-9266
Fax: 62-21-392-6179
paulus_lg@app.co.id

Sri Lanka

1) **Private Sector Infrastructure Development Company Limited**
2) US$25 million
3) up to 10 years
4) Mr. Leel Wickremarachchi
General Manager/CEO
Tel.: 941-346-385
Fax: 941-346-383
leel@psidc.com

And Now for the Good News... Lower Taxes

Canada's improved fiscal situation will have far-reaching beneficial effects on the economy.

By Stephen S. Poloz

The emerging slowdown in the U.S. economy has excited the usual murmurings that Canada will be dragged down, too. Fortunately, there are some important offsets in the mix, among which is the fact that Canadians are enjoying a sizeable tax cut this year.

While everyone welcomes a tax cut, its effect on the economy is not as simple as it seems. In the case of consumers, a tax cut obviously means an increase in disposable income. But what will consumers do with the extra money? There is a presumption that a large share of the extra money will be spent on goods and services, boosting economic growth and employment in the Canadian economy. But there are other places the money could go. For example, if a lot of the money were spent taking trips to Florida, there would be a much smaller boost to Canada's economy. Another possibility is that consumers will save their tax windfall. Many have seen their RRSP accounts decline in the wake of stock market volatility, and could try to restore their savings.

Although we will not see a one-for-one transmission from the tax cut to increased consumer spending, some of the money will clearly be spent. The same is true for companies, who will also see lower tax rates in 2001. Higher corporate profits will probably mean more investment spending across the economy. Although companies may hesitate to add to their spending plans in the midst of a slowing economy, they are sure to spend more than they would without the tax cut.

The longer-term effects of lower taxes are certain to be positive. On the company side, lower tax rates for corporations will improve Canada's international competitiveness. This means not only better pricing for Canada's products sold abroad, it also means that Canada will become a more attractive destination for international investment flows. On the personal side, lower tax rates will make recruitment and retention of talented human resources less problematic for employers.

In sum, the relaxation of fiscal policy will mean stronger economic growth than otherwise would have been the case. One implication is likely to be a stronger Canadian dollar. This implication runs deeper than the simple observation that Canadian interest rates might decline more slowly than U.S. rates in 2001, because our growth rate will be higher. Canada has just completed more than a decade of fiscal restraint. When the government withdraws demand from the economy, economic growth declines, unemployment rises, interest rates fall and the currency tends to be soft. Eventually, lower interest rates and a soft currency boost investment spending and exports, which replace the government demand that has been extracted from the economy. This positive process is called "crowding in" because private demand comes in to replace public demand. But one negative side-effect is that potential economic growth is adversely affected by the higher tax rates associated with fiscal restraint.

"Crowding out" is the opposite process: relax fiscal policy and economic growth rises, interest rates are higher and our currency firms. Domestic investment and exports can both slow as a result, as they are crowded out by increased government demand. But the really good news is that lower tax rates will also boost the economy's overall potential growth rate. This raises the ceiling on overall economic growth, meaning that no crowding out is necessary.

The bottom line? Lower taxes will have far-reaching effects on the Canadian economy, boosting investment, international competitiveness, overall economic growth and our global purchasing power. This golden combination should increase Canada's resilience to external disturbances, such as the slowdown in U.S. economic growth underway now. ■

Interested in receiving a Weekly Commentary piece by Stephen Poloz, EDC Vice-President and Chief Economist? Register on-line in the Market Intelligence section of our web site: www.edc.ca.

Illustration: Jason H. Statts/Three in a Box

Smaller exporters – companies with annual export sales of up to $1 million – can contact our team of specialists at **1-800-850-9626**

If your export sales exceed $1 million annually, call any one of EDC's regional offices at **1-888-332-3777**

Contacts

Western Canada

Jim Christie
Regional Vice-President
jchristie@edc-see.ca

Vancouver Office
Suite 1030, One Bentall Centre
505 Burrard Street
Box 58
Vancouver, B.C. V7X 1M5
Tel.: (604) 638-6950
Fax: (604) 638-6955
Blair Wilson
Business Development Manager
bwilson@edc-see.ca

Winnipeg Office
Commodity Exchange Tower
Suite 2075
360 Main Street
Winnipeg, Manitoba R3C 3Z3
Tel.: (204) 975-5090
Fax: (204) 975-5094
Lewis Megaw
Business Development Manager
lmegaw@edc-see.ca

Calgary Office
Home Oil Tower
Suite 606
324-8th Avenue S.W.
Calgary, Alberta T2P 2Z2
Tel.: (403) 537-9800
Fax: (403) 537-9811
Bruce Stanton
Business Development Manager
bstanton@edc-see.ca

Edmonton Office
Suite 905
10010-106th Street
Edmonton, Alberta T5J 3L8
Tel.: (780) 702-5233
Fax: (780) 702-5235
Karen Goss
Business Development Manager
kgoss@edc-see.ca

Export Development Corporation
Head Office
151 O'Connor
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

EDC
SEE

Ontario

Ruth Fothergill
Regional Vice-President
rfothergill@edc-see.ca

Toronto Office
Suite 810
150 York Street
P.O. Box 810
Toronto, Ontario M5H 3S5
Tel.: (416) 640-7600
Fax: (416) 862-1267
Laura Gainer
Business Development Manager
lgainer@edc-see.ca
David Little
Business Development Manager
dlittle@edc-see.ca

Ottawa Office
151 O'Connor Street
Ottawa, Ontario K1A 1K3
Tel.: (613) 597-8523
Fax: (613) 598-6858
Hal Miller
Business Development Manager
hmiller@edc-see.ca

London Office
Suite 1512
148 Fullarton Street
London, Ontario N6A 5P3
Tel.: (519) 963-5400
Fax: (519) 963-5407
Lillian Gagnon
Business Development Manager
lgagnon@edc-see.ca

Quebec & Atlantic Canada

Henri Souquières
Regional Vice-President
hsouquieres@edc-see.ca

Montreal Office
Suite 4520
800 Victoria Square
P.O. Box 124
Tour de la Bourse
Montreal, Quebec H4Z 1C3
Tel.: (514) 908-9200
Fax: (514) 878-9891
Françoise Faverjon-Fortin
Business Development Manager
ffaverjon-fortin@edc-see.ca

Halifax Office
Purdy's Wharf Tower II
Suite 1410
1969 Upper Water Street
Halifax, Nova Scotia B3J 3R7
Tel.: (902) 442-5205
Fax: (902) 442-5204

Halifax Office (cont'd)
David Surrette
Director of Business Development, Atlantic Canada
dsurrette@edc-see.ca

Moncton Office
735 Main Street
Suite 400
Moncton, N.B. E1C 1E5
Tel.: (506) 851-6066
Fax: (506) 851-6406
Charles Gaudet
Business Development Manager
cgaudet@edc-see.ca

St. John's Office
90 O'Leary Avenue
St. John's, Nfld. A1B 2C7
Tel.: (709) 772-8808
Fax: (709) 772-8693
Darrell Spurrell
Business Development Manager
dspurrell@edc-see.ca

EDC Regional Representation

Mexico
Calle Schiller 529
Rincón del Bosque
Colonia Polanco
México, D.F. 11560
Mexico
Tel.: 011-525-387-9316
Fax: 011-525-387-9317
Marvin Hough
Regional Director for Mexico & Central America
mhough@edc-see.ca

Brazil & Southern Cone
Av. Das Nações Unidas 12901
Cenu Torre Norte, Andar 16
CEP 04578-000, São Paulo
SP – BRAZIL
Tel.: 011-5511-5509-4321
ext. 3320
Fax: 011-5511-5509-4260
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
cescobar@edc-see.ca

China
c/o Canadian Embassy
19 Dongzhimenwai Street
Chaoyang District
Beijing, 100600
China
Tel.: 011-86-10-6532-3536 ext. 3357
Fax: 011-86-10-6532-4072
Alison Nankivell
Regional Director for China
anankivell@edc-see.ca

Other organizations that help exporters

Alberta Opportunity Company
1-800-661-3811
www.aoc.gov.ab.ca

Atlantic Canada Opportunities Agency
1-800-561-7862
www.acoa.ca

BC Trade and Investment Office
Tel: (604)-844-1900
www.ei.gov.bc.ca

Business Development
Bank of Canada
1-888-463-6232
www.bdc.ca

Canada-B.C. Business Service
1-800-667-2272
www.sb.gov.bc.ca

Canadian Commercial Corporation
1-800-748-8191
www.ccc.ca

Canadian Manufacturers and Exporters
(613) 238-8888
(905) 568-8300
www.the-alliance.org

Manitoba Trade & Investment Corp.
(204) 945-2466
www.gov.mb.ca

NorthStar Trade Finance
1-800-663-9288
www.northstar.ca

Ontario Exports Inc.
1-877-46TRADE (8-7233)
www.ontario-canada.com/export

Saskatchewan Trade & Export Partnership
(306) 787-9210
www.sasktrade.sk.ca

The Business Link
1-800-272-9675
www.cbsc.org/alberta

Trade Team Canada – Export Info
1-888-811-1119
www.exportsource.gc.ca

Trade Team P.E.I.
(902) 368-6300
www.peibusinessdevelopment.com

Western Economic Diversification
1-888-338-9378
www.wd.gc.ca

Canada

www.edc.ca

ExportWise

June/Summer 2001

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The Smart Touch

Calgary's Nancy Knowlton is one of the [illegible] in the world today to lead a multi-million [illegible] high-tech company. And she was an exporter from day one. Her story [illegible] on page 10.

Building an Export Culture: Creating Opportunities for Youth

A. Ian Gillespie, EDC President and CEO, shares a break with Junior Team Canada delegates.

The recent Summit of the Americas has shone a spotlight on trade, grabbing international headlines and sparking dialogue around the significance of trade to Canada. The Summit is also serving as a catalyst, eliciting a wide range of viewpoints on this topic. In short, it is providing an opportunity to consider public concerns and develop solutions.

Decisions and solutions we make with regard to Canada's global trade policy will have a ripple effect throughout the coming years. This is why it is critical to prompt youth to think about trade policy and international relations, to formulate opinions and solutions, and to prepare themselves to be active proponents of an export culture.

Quite simply, Canadian companies need to tap international markets to keep our economy alive. Unless they look beyond domestic borders, the majority of Canadian companies will be unable to compete on their own turf, and risk losing Canadian business to foreign companies. This is a situation unique to Canada – American, European, or Chinese companies are able to achieve large economies of scale just by serving their domestic markets.

As a result, Canada has far more to gain from trade liberalization, and much more to lose from a resurgence in protectionism, than the larger global economies. By inviting Canadian youth to consider trade issues at the early stages of their career planning, we can help to foster an ongoing export culture in Canada.

One such key initiative is the Opportunities in the Americas Challenge, which culminated in April and invited youth from all across Canada to promote their perspectives on a specific trade issue through a written action plan. The solutions and ideas put forward are thought-provoking, and show insight that will serve them well. In the submissions, they collectively identified and discussed the importance of a diverse range of issues as they pertain to trade, including: knowledge of cultural differences; in-depth education as the basis for informed decision-making; new technologies as learning and communications tools; environmental sustainability; protection of human rights; economic partnerships; and taking an entrepreneurial approach to trade.

The sponsorship of this event is part of EDC's EYE strategy (Education and Youth Employment). Last year, we committed over $1 million to this strategy, which included the launch of our International Studies Scholarships, offering 21 of Canada's most promising students an opportunity to develop a career in international business or relations.

By thinking towards the future, and the development of a strong export culture in Canada, we can provide myriad opportunities for the youth of today.

*A. Ian Gillespie, C.I.T.P.**

For more information on EDC's EYE strategy, visit: www.edc-see.ca/youth.

**Certified International Trade Professional*

June/Summer 2001

Contents

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Ottawa, Ontario K1B 3V9

Structuring an Export Contract: When a Handshake is Not Enough

Part II of II

By Patricia Smith

In the last issue of *ExportWise*, we introduced you to some tips for developing a solid export contract to help safeguard against some unnecessary risks of international business. To review Part I of this article, visit *ExportWise* on EDC's web site: www.edc.ca.

In Part II of this article, we'll address the issues of contract effectiveness, shipping and delivery terms, governing laws, buyer financing, dispute resolution and Canadian laws. You'll note we've also included some tips on contract performance guarantees.

Contract effectiveness

Bear in mind that any amounts that you may have expended in performing under the contract may be lost if the contract never comes into force.

Consider what conditions must be in place for your contract to be effective, such as a down-payment, and if you have control over these conditions.

Shipping and delivery terms

Ensuring that the goods are received as agreed helps ensure you get paid, especially since the sign-off of goods at destination is often the event that triggers payment.

Exporters should be familiar with commonly used terms in international shipping such as Incoterms. Incoterms 2000 are now the international standard – they address when title to the goods passes from seller to buyer and covers the risks, responsibilities and costs between buyer and seller in relation to such things as freight, insurance, import/export clearance, demurrage and storage. To purchase a copy of Incoterms 2000, visit www.iccbooks.com.

Governing laws and jurisdiction

While you may prefer to use your own law, the realities of the marketplace frequently mean that the commercial contracts are governed and interpreted in accordance with local laws.

Consulting with a lawyer who is familiar with the local commercial laws of your buyer, specifically with regards to contracts, is advisable.

Buyer financing

Buyer financing is often a critical factor in international business, so it is important to understand some basics.

If getting paid is dependent upon your buyer's financing, be sure it is in place before you begin work. Otherwise, you may be required to expend monies on the contract before the buyer has the means to pay you!

Much of the contractual risk that impacts you is the degree of credit risk posed by your buyer. Some things will be outside your control. It is up to you to ensure that you understand all contract terms and include provisions (such as late payment clauses) that minimize the risk to you.

Remember that by extending credit to your buyer you are, in effect, financing him/her. Consider what you might have to forego by tying up cash this way – expansion, other opportunities – and avoid having to do so.

Dispute resolution

Because problems arise from time to time, you should include a clause which allows for unbiased and reasonable mechanisms for resolving disputes.

Be sure to consider the size and nature of the contract in formulating dispute provisions. Dispute resolution can be a lengthy and expensive proposition, so for minor disputes, consider including a provision to allow performance to continue while the dispute is being resolved. Again, the advice of an experienced commercial lawyer can be invaluable.

Consider what conditions must be in place for your contract to be effective, such as a down-payment, and if you have control over these conditions.

Abiding Canadian law

Finally, it is important for exporters to understand Canada's policies and laws surrounding payoffs, kickbacks, and corruption, even if a contract is performed elsewhere.

Such actions are crimes under Canadian law and are punishable by strict penalties. It is a criminal offence to "purchase" a contract abroad through a bribe or any offer of payment that results in an advantageous position in contract negotiations. EDC's Code of Conduct forbids support to transactions that involve any such unethical practices.

The time invested in getting your deal in order up-front will pay off. It could save you money and make for headache-free exporting.

Contract Performance Guarantee/Bond Requirements

Foreign buyers often require exporters to provide financial security to ensure that their commitments will be honoured both at the bid and performance stages. This security is usually in the form of an "on demand" bank letter of guarantee or standby letter of credit. However, it can also be in the form of a contract surety performance bond issued by a licensed surety company.

Since the issuance of these performance guarantees and bonds is subject to the exporter providing full indemnity to the issuer for any amounts paid under the guarantee or bond, the exporter is exposed to a potential financial loss if it is "called." Essentially, the buyer can "call" the bond or guarantee and get paid, leaving the exporter with little recourse, even if the call is made in bad faith.

Accordingly the exporter should clearly define their performance obligations and the terms for which the buyer can make a valid call for non-performance. To protect your position, ensure that the performance security guarantee or bond is:

- → callable only after the contract effectiveness conditions have been met and the contract is in force (e.g. the validity of advance payment guarantees should be conditional upon the exporter's receipt of the advance payment from the buyer);
- → subject to the appropriate recognized regulatory jurisdiction (e.g. International Chamber of Commerce or appropriate insurance regulations of the buyer);
- → issued by a bona fide financial institution (bank or surety); and,
- → has a fixed expiry date. ■

Top 10 Export Errors*

Unsuccessful or struggling exporters tend to make the following common mistakes, according to Industry Canada.

1. No Market Research
The business takes insufficient time to collect background information about the target markets, such as consumer demand, the competitive landscape, local import laws, customs requirements and other important factors.

2. Lack of Commitment
When problems arise, the exporter does not have the determination or financial resources to deal with start-up problems.

3. Poor Alliances
The exporter pays too little attention to the qualifications of a foreign agent or distributor.

4. Eyes Too Big
The exporter tries to enter too many different markets too quickly.

5. Low Priority
The exporter uses foreign markets as a back-up to the domestic market and abandons exporting when the local economy booms.

6. Poor Distributor Relations
The exporter treats foreign agents or distributors as minor partners, giving preference to domestic distribution channels.

7. Rigid Practices
The exporter balks at modifying products in compliance with foreign regulations and cultural preferences.

8. English Only
Producing documents in one language, the exporter wins few friends in foreign markets.

9. No Export Expertise
A novice exporter should not attempt to do everything without help and should hire freight forwarders, customs brokers and other specialists to ensure technical details are correct.

10. Going It Alone
Opportunities are missed when the exporter doesn't investigate potential strategic partnerships, joint ventures and technology exchanges.

**This information was drawn directly from the Royal Bank's "On-line Definitive Guide to Exporting for Small Business." For success tips, visit: www.royalbank.com/sme/guides/export/tips.html.*

On-Line Resources: Getting Export-Ready

By Brenda Brown

Export planning

Team Canada's on-line source of export information **www.exportsource.gc.ca** includes country and sector research, marketing and financing advice and 'how to' tips. This site also has a tool called the Interactive Export Planner that takes you through the step-by-step process of developing an effective export plan. You can also reach Team Canada at 1-888-811-1119.

Researching buyer leads

The International Business Opportunities Centre assembles buyer leads from around the world. Check the list frequently for possible sales leads at **www.iboc.gc.ca/menu-e.asp**. You can also contact the Department of Foreign Affairs and International Trade (DFAIT) at 1-800-276-8379 and ask to speak to the Trade Commissioner or Desk Officer responsible for a particular market. For a complete list of the Canada's trade commissioners in consulates and embassies, see **www.infoexport.gc.ca/eservices-e.asp**.

You can also register with WIN Exports, DFAIT's internal database of exporting and export-prepared companies. It is used by Team Canada to contact and assist Canadian firms in foreign markets: **www.infoexport.gc.ca/section**.

Available training

The Forum for International Trade Training (FITT) provides both individual and group training. Contact 1-800-561-3488 for a list of locations across Canada or visit **www.fitt.ca**.

The Business Development Bank of Canada has developed NEXPRO, the New Exporters Training and Counseling Program, designed for those with export potential but who lack exporting knowledge and experience. NEXPRO helps entrepreneurs understand the export process, develop a realistic export plan and implement an export strategy. For information call 1-888-463-6232 or visit **www.bdc.ca**. ■

Brenda Brown is a Web Editor on EDC's E-Business Team. She can be reached at brbrown@edc-see.ca.

Emerging Exporter Profile: Beauty and Resiliency at an Affordable Price

By Brenda Brown

Photo courtesy of Quartzitec Inc.

What combines the resiliency and beauty of marble and granite, is environmentally friendly, can be used indoors and out, and is easily installed at an affordable price?

Whatever it is, I want it for my kitchen and fortunately for Quartzitec Inc., so do myriads of other people and businesses including airports, shopping malls and hospitals, to name but a few.

Quartzitec is a Sussex, New Brunswick-based company which prides itself on being the only plant in the world using Breton Terastone Technology to produce what the company calls "QuartzStone, the next generation in tile."

This technology uses portland cement (as the binding material) and quartz to produce tiles which Quartzitec maintains are harder than marble or granite and longer lasting. The use of cement versus resin, commonly used in other tiles, also makes the product environmentally friendly because it is 100 per cent recyclable.

"This means developers don't need to worry about the disposing of harmful waste during renovations or reconstructions," says General Manager Gilbert Carter. "We also think about the environment during our production process. Because QuartzStone is made from a natural material, it doesn't require crushing, which cuts back on energy needs and we focus on water recycling during production to preserve this local resource."

As well as being environmentally friendly, the tiles also meet the most discerning customer's taste for appearance, durability, colour fastness, consistency and strength, according to Carter. "They look like polished granite but have greater colour diversity. Right now we produce 16 standard colours but we can also customize."

The company started constructing its 40,000 square foot state-of-the-art facility in April 1998, with actual production starting 20 months later. And although their primary export market

"As a new company, we realized that protecting our receivables wa of paramount concern," notes Gilbert Carter of Quartzitec In New Brunswick.

is the United States, they receive calls daily from other parts of the world interested in their products.

EDC was called in early on in the process, Carter says, because "as a new company, we realized that protecting our receivables was of paramount concern."

"We don't have a large staff and wanted to find economical ways of minimizing risk while we grow. As well as providing us with accounts receivable insurance, which protects up to 90 per cent of our losses should our buyers not pay, we also rely on EDC 's extensive market knowledge and credit expertise to help us check out potential new customers."

Profile

Business: QuartzStone tile
Established: 1999
Number of employees: 15
Export business: 80%
Export markets: United States
EDC relationship: Accounts Receivable Insurance
Contact: www.quartzitec.com

Hyd-Mech Leverages Insurance to Stay on High

Tony Gzik and Marti Anne Falcone of EDC, with Ben Fuschino of Hyd-Mech (far left), developed a customized plan to offer Hyd-Mech's dealers longer payment terms.

By Lauren Klump

"So, what's the catch?" is a question Ben Fuschino often hears from potential customers when discussing payment terms. The European Sales Manager of Hyd-Mech Group is happy to tell dealers that it's not too good to be true – they really can test the company's machines in their showrooms for nearly a year before deciding to purchase them.

Hyd-Mech Group, a heavy-duty metal cut-off bandsaw manufacturer, is able to offer its customers 360-day payment terms thanks to an EDC accounts receivable insurance policy. By using EDC, Hyd-Mech gives dealers time to evaluate its saws before paying for them. "They can put the machines in their showrooms without worrying about bills for a few months," says Fuschino. "Once dealers' clients see our machines in action and appreciate their performance and quality, they literally cart them off the floor."

Fuschino is pleased with the "enormous competitive advantage" the EDC insurance policy has given Hyd-Mech and says it has boosted sales considerably. "Before, we could only allow a 60- to 90-day payment period, and our customers couldn't afford to buy more than one saw at a time, whereas our new system allows dealers to acquire multiple units."

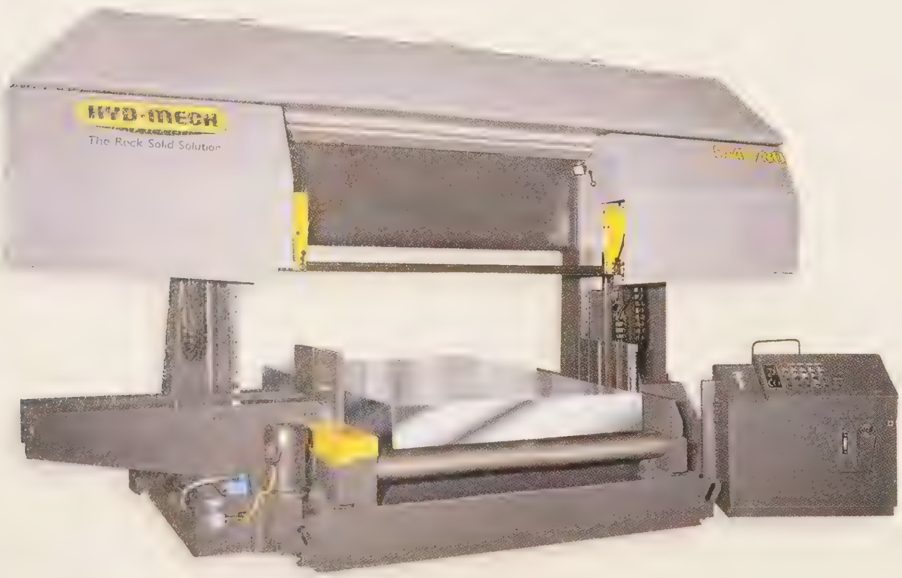
The current relationship between EDC and Hyd-Mech took some time to establish; Ben Fuschino initially declined doing business with EDC when approached by the Corporation several years ago. "At the time, EDC representatives weren't able to offer anything that met Hyd-Mech's needs, so we never made a deal."

Hyd-Mech continued to operate as usual until 1998, when Tony Gzik, a Toronto EDC Business Development Manager, entered the picture. "I gave Ben a call and asked if we could meet, but he was reluctant because of his past experience with EDC," says Gzik. However, Gzik gently persisted and convinced Fuschino to spare a few minutes to discuss how Hyd-Mech could benefit from an EDC insurance package. "I was pleasantly surprised when I met Tony," affirms Fuschino. "He developed an ideal plan for Hyd-Mech and provided exceptional service."

Fuschino was also impressed with the underwriting process led by Marti Anne Falcone of EDC's Ottawa head office. "Marti Anne's efficiency made the implementation an absolutely seamless process," he remarks.

Originally, Hyd-Mech used EDC insurance for the European market only, but soon expanded the program to include its U.S. exports. The company also plans to use the 360-day payment policy as part of its strategy to penetrate other markets.

Ben Fuschino says Hyd-Mech Group is looking forward to a long and prosperous relationship with EDC and he encourages other companies to consider the Corporation for their exporting needs. "I tell anyone who exports, do yourself a favour and call EDC."



Hyd-Mech offers its dealers a 360-day payment period. This enables dealers to purchase the full range of Hyd-Mech equipment for display in their showrooms.

Profile

Business: Heavy-duty metal cut-off bandsaws
Established: 1978
Headquarters: Woodstock, ON
Annual sales: $40 million
Export business: 80%
Export markets: United States, European Union, Southeast Asia, Australia, New Zealand
EDC relationship: Accounts Receivable Insurance
Contact: www.hydmech.com

Product photo courtesy of Hyd-Mech

"*In Dreams Begin Responsibilities.*"

Delmore Schwartz

It's Responsibility. Period.

By Scott Shepherd

As someone involved in all the hustle and bustle of running a new and growing business, you probably think bankers can be a pretty dozy bunch.

It may be hard to accept that sometimes we bankers actually dream, just like other people do. But it is true, we do. And as the modernist poet Delmore Schwartz put it, "In Dreams Begin Responsibilities."

I had a dream, back in 1994, of starting up Northstar Trade Finance Inc. to meet the medium-term financing needs of small- and medium-sized Canadian exporters. Conventional sources of this kind of trade finance were simply not doing the job of supporting export transactions in the \$100,000 to \$5 million range, despite how critical these transactions can be to the success of smaller Canadian companies in world markets.

Today, that dream is being realized. Northstar now has offices in Vancouver, Toronto, Montreal, and Calgary. And we have \$300 million in lendable capital from Bank of Montreal, our original private sector shareholder, along with Royal Bank of Canada, HSBC Bank Canada, National Bank of Canada and our latest investor, CDP Capital International, the international arm of Quebec's Caisse de Depot. The Government of British Columbia is also a shareholder. And all Northstar loans are insured by EDC.

It is a formidable team Northstar has put together, comprised of some heavyweight players by anyone's standards. Yet for all that, we remain very much a small business, with only about two dozen employees, still able to share the dreams of our entrepreneurial clients.

So when does the responsibilities part start kicking in? It already has.

The most visible evidence of that is the Honda Insights you can see Northstar staff driving around in. The Insight is North America's first gasoline-electric hybrid automobile, offering an incredible 3.2 litres/100 kms in town, and on the highway, 3.9 litres. We bought these environmentally friendly vehicles as part of our commitment to going green. And to help others do the same, Northstar offers at-cost financing to bonafide Canadian environmental technologies exporters who meet our standard credit criteria.

Cars and credit facilities are one thing. Northstar also picks up the costs involved for up to two children per participant when each of our staff, board members and suppliers want to foster a child in a developing country through the Foster Parent Plan of Canada. We feel this helps put things into perspective. People are what it is all really about and this people-to-people exchange in countries where Northstar lends helps to further enrich our people with the knowledge and will that they can make a difference, even with the smallest action and commitment.

We also want to get young people excited about the world of international business, and to provide support to the entrepreneurs of tomorrow. And so back at my alma mater, Dalhousie University, Northstar has established three \$5,000 scholarships to help MBA students focus on learning the tools of the exporting trade.

Bottom line?

A commitment to make things a little better somewhere, someplace, and the will to make it happen is the fundamental root for what real trade is about.

Each party trades with the other so that both are better off than before. I would therefore ask each of you to build this into your business plans and make a difference.

At Northstar we believe corporate responsibility is not a burden. It is an opportunity to fully participate as members of the global community. More than that, it isn't really about corporate responsibility. It is about responsibility. Period. ■

Scott Shepherd is President and CEO or Northstar Trade Finance Inc. (www.northstar.ca). Scott is very involved with the promotion and support of small- and medium-sized exporters in Canada.

The views expressed here are those of the author and are not necessarily held by EDC.

The Smart Touch

Nancy Knowlton is one of the few women in the world today to lead a multi-million dollar high-tech company. SMART Technologies Inc. employs over 340 people and generates the majority of its $56-million annual revenue (2000) from foreign sales.

The company's flagship product is the SMART Board, a touch-sensitive interactive whiteboard. By pressing on the Board's surface, you can control projected computer applications using your finger as a mouse. You can also write over top of any application, save, print or e-mail notes, and convert handwriting into type with the touch of a button.

The SMART Board got a huge promotional boost when it was featured on the popular television show *The West Wing*. Madeleine Albright, the former U.S. Secretary of State had a SMART Board in her office, and NASA uses one for mission planning and media briefings.

Not bad for a company that began as a home-based business in 1987.

By Julie Harrison

By 11 a.m. on Monday morning, Nancy Knowlton has already put in a full day's work. She had to start at 4 a.m. because she took Sunday off and has much to do before she flies to Tokyo in two days' time. During the previous week, she traveled to Bonn and Zurich. It's a dizzying pace, but Knowlton is looking forward to a short break – exactly one hour and 15 minutes. That's how long it will take her to walk around the Imperial Palace in Tokyo. Not surprisingly, she's already timed it out and plans to rise early to fit that bit of personal time into what will surely be another hectic day.


Computer to Student Ratio in the Class
Spelling... F7
Auditing
AutoCorrect...
Goal Seek...
Scenarios...
Protection
Add-Ins...
Macro...
Record Macro
Options...
State

Working hard is nothing new to Knowlton. Her idea of taking a year off was to take some general interest university courses and play for Canada's national basketball team in 1975. She was a star basketball player in university, and set the scoring record for averaging 35 points per game. Now she's putting up impressive numbers away from the court.

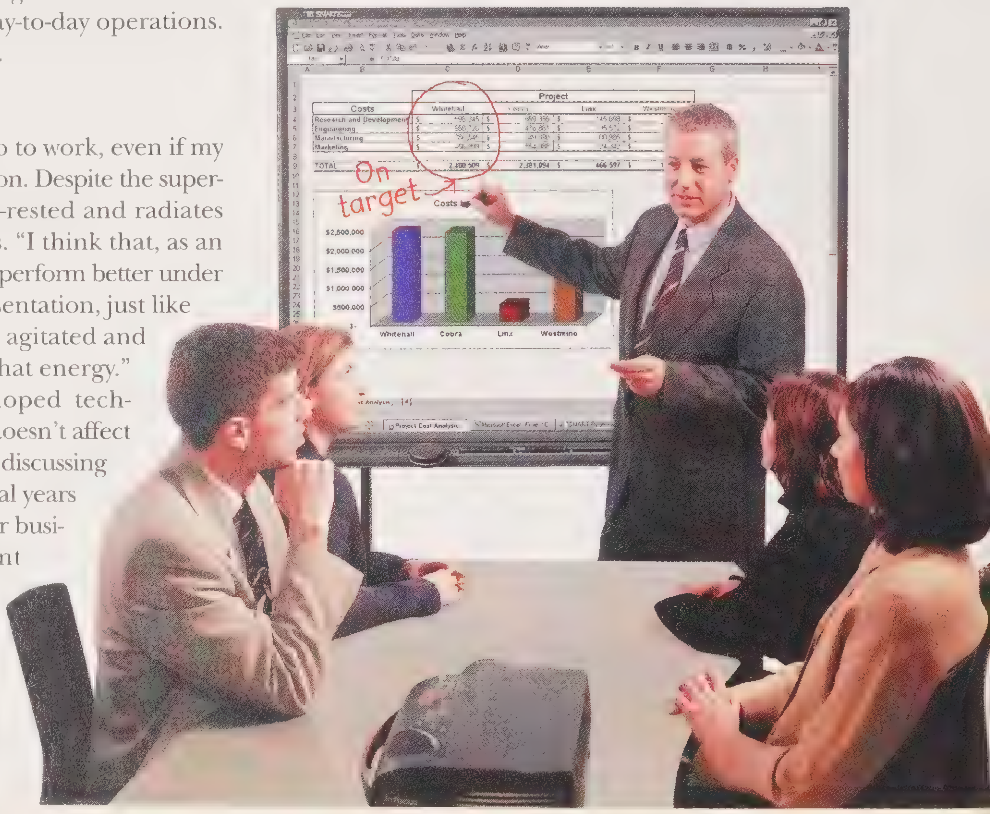
Knowlton is co-founder, President and Chief Operating Officer of SMART Technologies Inc., a company with 2000 annual gross sales in excess of $56 million. Her husband and business partner, David Martin, is Chairman and Chief Executive Officer. He handles the strategic direction of the company while Knowlton deals with day-to-day operations. They both work 70 to 80 hours a week.

SMART Stress

"I wake up every morning, excited to go to work, even if my day is loaded with problems," says Knowlton. Despite the superhuman schedule, Knowlton looks well-rested and radiates energy. She claims she thrives on stress. "I think that, as an athlete, a student, and a businessperson, I perform better under stress. I like being nervous before a presentation, just like I was before a big basketball game. I'm agitated and ready to go, but I know I can channel that energy."

Knowlton and Martin have developed techniques to channel that energy so that it doesn't affect their marriage. They have a pact to avoid discussing work at home. "We made that pact several years ago when it looked like we might lose our business. I just couldn't take the constant pressure and strain. So we agreed to separate our time at work from our time at home. Our home has become more of a sanctuary, a place of rest and relaxation away from the challenges of the business," explains Knowlton.

Knowlton says she learned the risks associated with stress early in her business career. "I started exhibiting some of the symptoms of stress during the time our business fell into insolvency. My doctor gave me a little talking-to and warned that if I didn't learn to manage stress I would end up very sick," Knowlton remembers. Clearly, Knowlton learns fast; she considered her doctor's advice for about 20 minutes – long enough to drive back to the office – and since then says the symptoms have virtually ceased.



Knowlton Know-How

Knowlton and Martin couldn't entice venture capitalists to invest in SMART so they had to find another way to get their enterprise up and running. Knowlton's street-smarts helped them develop a solid working relationship with banks. She offers these tips on how to make the most of that relationship.

Speak their language.
Knowlton credits her education as a chartered accountant for much of the success she's enjoyed with financial institutions. Her familiarity with financial terminology and sound management gave her instant credibility with bank managers.

Keep lines of communication open.
Knowlton made a point of always sharing any news – good or bad – with the bank. Most often she did this in person, face-to-face with her bank manager.

Educate your banker.
Make sure the bank really understands your business. SMART took their banker on a tour of the office and carefully explained how their product worked and why there was a growing market for it.

Photo courtesy of SMART Technologies Inc.

SMART Risk

Part of Knowlton's stress-management regime is to reduce the potential downside of SMART's business strategies. She and her partner carefully analyze every move for both possible benefits and potential risks. Knowlton doesn't consider herself a risk-taker. "Most people misunderstand the whole element of risk. Neither Dave nor I feel that we're big risk-takers. Everything for us is calculated," Knowlton explains.

Calculated or not, Knowlton and Martin have had to take some risks to turn SMART into the success story it is today.

"I wake up every morning, excited to go to work, even if my day is loaded with problems."

"We've had to put the company on the line a couple of times, but we won every one of those bets and our company grew stronger and more successful. But when we took those bets, we didn't think that we were taking a big risk. That's how most entrepreneurs tend to view things," Knowlton says.

Knowlton's take on risk was evident long before she and her husband created SMART. Upon completion of her chartered accountancy studies, she accepted an articling job in Calgary despite the fact she'd never even been there. "After a very short interview, they offered me a job on the phone. And I accepted – the job, the office, Calgary, everything – and just decided to come out here," recalls Knowlton.

Now that Knowlton and Martin are employers, they recognize and reward their employees for just that kind of decisive behaviour. They are intensely loyal to their staff. In hard times, they twice de-registered their own RRSPs to make payroll. "We have a huge sense of responsibility to our staff, and if we just thought about ourselves I think it would prove fatal to the company at some point in the future," says Knowlton.

Just plain SMART

SMART staff may enjoy that kind of commitment from senior management, but the company doesn't believe in many of the perks that have become so common in other high-tech companies. There are no beach volleyball courts, pool tables or arcade rooms at SMART. Offices are simple and functional.

"Our first focus is to provide good jobs and good compensation. I know a lot of companies have established what they consider to be some unique perks, but I'm not sure that you can ever keep up with the creativity of people's thinking," explains Knowlton.

Knowlton herself doesn't seem overly creative, clever or quirky. She doesn't dress in trendy clothes or spout high-tech jargon. She just uses her smarts, and consistently scores big. ■

The Smart Story

1987

- ✔ The concept of an interactive whiteboard, the SMART Board, is conceived during a long car ride from Montreal to New York.
- ✔ Knowlton and Martin start the business from home. They have two employees: themselves.

1987-1990

- ✔ To fund the research and development of the SMART Board, Knowlton and Martin become distributors for In Focus Systems Inc.

1990

- ✔ Sales of SMART Boards begin in the United States.
- ✔ In Focus pulls all its distribution in-house and takes away 97 per cent of SMART's revenue.

1990-1993

- ✔ Knowlton and Martin negotiate a deal with their bank to keep SMART in business.
- ✔ Knowlton and Martin twice de-register their RRSPs to make payroll.

1993

- ✔ Intel Corporation buys a 28 per cent share of SMART.

1995

- ✔ Intel Corporation buys out a royalty stream on a co-developed product, enabling SMART to repay all debts.

1996-1999

- ✔ SMART launches more that 20 new products and upgrades.
- ✔ Export sales increase by a staggering 326 per cent.
- ✔ Knowlton is named Canada's 1999 Woman Entrepreneur of the Year.

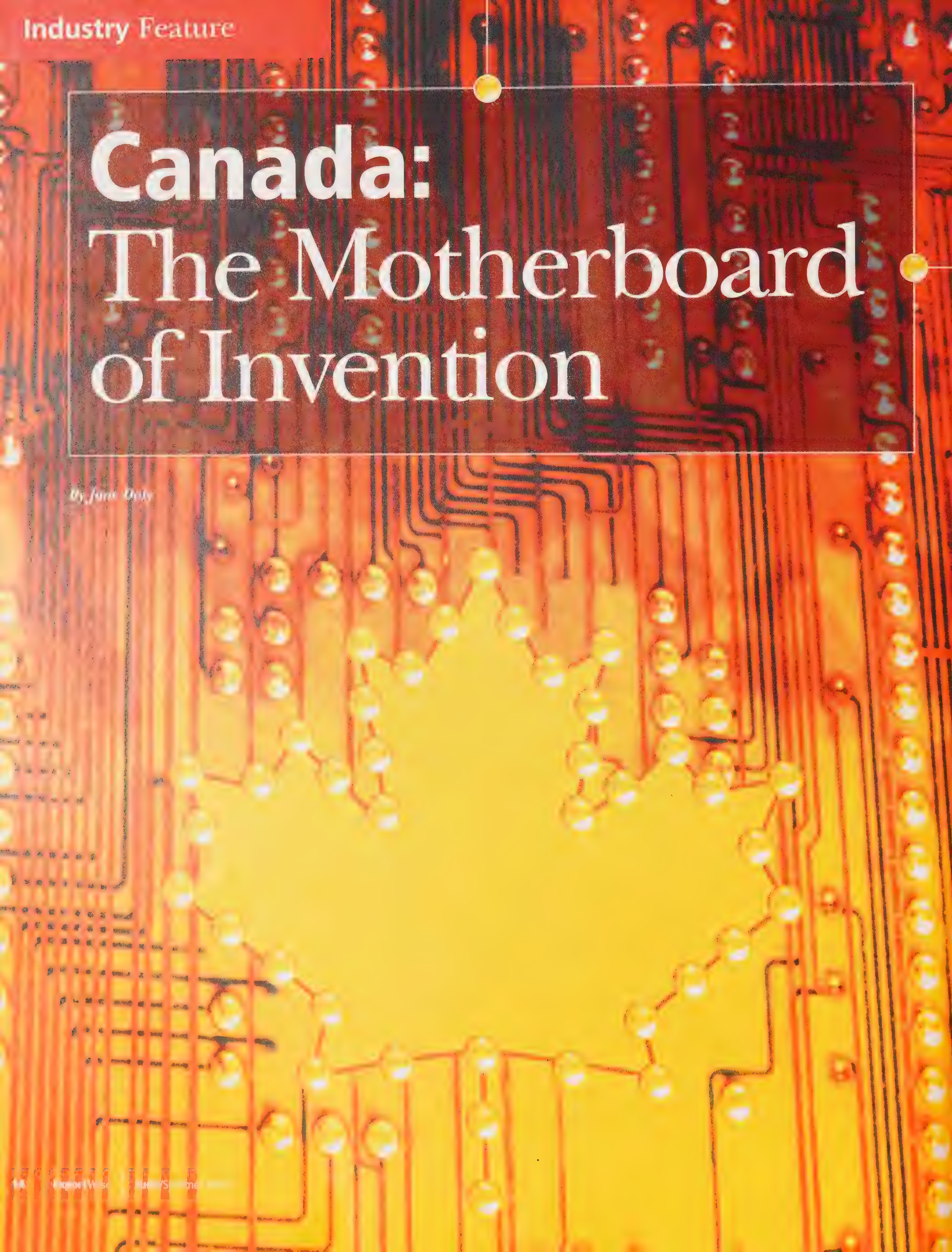
2000-2001

- ✔ With sales in more than 50 markets, SMART is awarded the 2000 Canada Export Award and is named Exporter of the Year.
- ✔ SMART opens offices in Germany, Japan and Washington, D.C.
- ✔ Annual sales for 2001 expected to grow by at least 50 per cent.

For more information on SMART, visit www.smarttech.com.

Canada: The Motherboard of Invention

By Jane Daly



Quick quiz: What's been used on the International Space Station, in humanitarian de-mining missions, and your grocer's freezer? For both the Indy 500 and the Fortune 500? By organizations that are as "apple pie" as Walt Disney, and as enigmatic as those that investigate murders?

The answer is Canadian knowledge-based technology. Here, from a tiny Newfoundland town to British Columbia's booming coast, are four companies attracting global interest, and getting a helping hand from EDC to export their ingenuity to the world.

Photo courtesy of ACR systems

The Iceman Cometh – with an ACR Systems Data Logger

When the ancient body of a frozen "iceman" was found in northwestern British Columbia last year, scientists at the Royal B.C. Museum had a problem. What temperature had enabled the preservation of the body in its icy tomb, and how could they keep it that way once they removed it for research?

The solution was an ACR Systems data logger which, by continuously measuring and recording the iceman's temperature, allowed the scientists to preserve the body correctly. Thus, the iceman became one of ACR's customers (and perhaps the most unusual), joining ranks with companies located in 100 countries and ranging from small appliance repair shops to Fortune 500 giants such as Boeing, Coca-Cola, Walt Disney, Harley-Davidson and Abbott Laboratories.

"We are constantly amazed by the innovative ways our data loggers are used," says David McDougall, ACR Systems. In simple terms, ACR loggers collect data on temperature, relative humidity, electric current, pressure, process signals, pulse frequency, power quality or other measureables. The stored data can then be transferred to a computer for analysis and use in other computer applications.

"Once the user has this information, they can act," says McDougall. For example, Indy 500 teams use the device to log tire temperatures. Extremely hot temperatures indicate excessive tire wear; cold temperatures decrease traction. The team can thus determine the optimal set-up of the car's suspension to reduce required tire changes during a race.

The sheer variety of uses is what makes ACR's technology challenging. "We're able to create a data logger for just about any application," says McDougall. ACR has created the only palm-sized data logger that records continuously for 10 years on a single battery, and recently released the SmartButton, which is the size of a dime. →

Another challenge is managing export credit risk, but McDougall says ACR is pleased to be using EDC's accounts receivable insurance to address this. "Previously, we restricted credit to just North American customers and a handful of others. I think this constrained our sales," he says. "We also believe risk-sharing with EDC will help our sales growth. We've only been using their services for five months, and it's already helped with sales in Africa and the Middle East."

Moreover, McDougall is impressed with the professional level of service he's received. "EDC has been great to work with from the very beginning," he says. "The initial meeting was organized quickly and was very informative. The EDC representative, Cory Stevens, was prompt in his follow-up so that the relationship was formalized quickly, and has been running smoothly ever since."

Marching to the beat of Guigné DRUMS™

It's a company of just 65 employees, whose research and development facilities are located in a small Newfoundland town with the quaint name of Paradise. But Guigné has developed a technology with a range of applications that can only be described as breathtakingly huge. (Guigné Technologies' head office and production operations are located at the company's second premises in St. John's.)

DRUMS™ (Dynamically Responding Ultrasonic Matrix System) technology products are creating new materials on the International Space Station, and down below our waters performing non-invasive health checks on fish. It's used in humanitarian de-mining missions, and may some day be inside your own body.

"Basically, DRUMS™ is to sound what laser is to light," explains Ray Whalen, Guigné's Executive Vice-President. "A laser focuses light into pencil-beam rays. With DRUMS™, sound is focused into pencil-beam rays."

Whalen says that the number of identified industrial applications for this technology continues to expand. "But at this stage in our growth, our company remains focused to bring to production those applications where there has been an early buy-on by the market."

Guigne's scientific breakthrough is now producing applications that can be used in sectors as diverse as space, advanced materials, sonar defense, pharmaceutical, environmental monitoring, petroleum, aquaculture and food processing.

In each industry sector, Guigné has formed strong strategic alliances or partnerships with multi-nationals like Astrium (formerly Daimler Chrysler Aerospace), Thomson Marconi Sonar, NASA and Nutreco Aquaculture. And judging by the way these big companies are taking notice, it's certain Guigné will have no shortage of export opportunities. That's where EDC can help.

"We met EDC about a year ago, and could see their services would be valuable," says Whalen. "But what really impressed us is that they brought more than just financial services to the table. There was a willingness to make things happen."

Whalen says Ian Gillespie, EDC's President and CEO, and David Surrette, Director of Business Development in Atlantic Canada, took the time to visit and get to know the company. "Darrell Spurrell of their St. John's office also regularly updates us on available EDC products," he says. "We sense a strong commitment, and it all indicates they're there to support us and see us succeed."

Soon after the early meetings, EDC teamed up with the CIBC Grow Export program to provide Guigné with financing to deliver its Space-DRUMS™ product to NASA's Center for Commercial Applications of Combustion in Space, in preparation for use on the International Space Station.

Space-DRUMS™ uses acoustic beams to actually hold in position and control the levitation of materials in a micro-gravity environment while they are being processed. This means materials can be created without being restricted by a boundary or contaminated by a solid surface. The result is "new to the world" materials, including ultra-hard, ultra-pure glass and ceramic that will, for example, be used for telecommunications, computer chips and human bone replacements.

"The CIBC-EDC Grow Export program helps small- to medium-sized Canadian exporters in knowledge-based industries access working capital for export sales," explains David Surrette. "EDC covers 50 per cent of loans made by the bank to exporters to fund the pre-shipment costs necessary to complete the export contract."

EDC's participation was essential to this transaction, says Whalen. "They had confidence that we would be a success story for Canada. Working together, EDC and CIBC translated those words into action to make our company an international player in the space industry."

COM DEV rings up new sales

If you love your wireless phone, you'll love M-ERGY. M-ERGY is a high-speed alternative to phone or cable Internet access, but with a big difference: it's wireless, meaning that you can go on the Internet from any room in your house, without needing to be plugged into a phone or cable line.

Such leading-edge technology can well be expected from COM DEV International Ltd. Some of its technology is flying to Mars on the Japanese Nozomi satellite, where it will send research signals about atmospheric plasma back to Earth when the probe encounters Mars in 2004. It was also used on NASA's NEAR Shoemaker spacecraft, which landed on the Eros asteroid in February and is now hurtling through outer space.

COM DEV International includes the divisions of COM DEV Space and COM DEV Wireless. COM DEV Wireless is meeting the increasing demand for ground-based wireless technology that expands the applications of microwave technology, developed for communications satellites over the past 25 years.

When COM DEV was only exporting technology from its Space division, it didn't seem to need EDC services, says Ron Holdway, Vice President of Communications, COM DEV. "Our Space customers, like Boeing, Lockheed and Alcatel, are huge. They're well-known, don't need financing, and we don't worry about them defaulting. So for several years we had discussions with EDC, but couldn't find ways to work together."

That changed when COM DEV expanded into ground-based wireless systems. "We are now in a position to benefit from the full range of EDC services," says Anita Davis, Vice President and General Manager of COM DEV Wireless Systems Products whose team captured a contract valued at US $98 million with EM-International Systems Nigeria Ltd. (EMIS) to supply infrastructure for fixed wireless local loop applications.

EDC was approached to provide a portion of the vendor financing for EMIS, but there was a problem. "The current situation in Nigeria presents a challenge for EDC to structure appropriate financing," explains Marie-Chantal Melanson, EDC Financial Services Manager. "So we proposed a creative solution in which EDC would lend the funds to the African Export Import Bank (Afreximbank) in Cairo, which would in turn lend the funds to EMIS in Nigeria." Afreximbank is an international EXIM bank established in 1993 comprised of African Governments, African private and institutional investors as well as international institutional and private investors. The principal objective of Afreximbank is to finance and facilitate trade among African countries and with the rest of the world.

COM DEV Shares Trade Mission Tips

When Richard Kolacz of COM DEV Space joined the Trade Mission to China, the Marketing Manager found there was as much to learn while travelling on the plane or bus as during organized meetings.

"Travelling to China helped me learn about the market there. But while a Trade Mission itself is conducted at very high levels, there are also great opportunities to network at the grassroots level," advises Kolacz, who represented both COM DEV Space and COM DEV Wireless.

Kolacz says long plane and bus rides provide a rare chance to meet people from diverse, leading-edge businesses across Canada – all in one place. "You can make contacts, find out what technology parts other companies are making that you could use, or how they solve problems common to us all," he says.

And Kolacz says you don't even have to take notes. "By the time the Trade Mission ends and you've listened to the participants' presentations over and over again, you know them all by heart!"

Bits & Bytes

- Canada has the highest share of global e-commerce revenues after the United States.

  Source: *Fast Forward. Accelerating Canada's Leadership in the Internet Economy*

- Telecommunications equipment accounts for about one-third of all Canadian information and communications technology exports.

  Source: *The ICT Sector in Canada*, Industry Canada

"EDC's Financial Institutions Team commenced discussions with Afreximbank and concluded it would make an excellent strategic partner for the US $15 million facility," notes Melanson. "EDC worked with Afreximbank to figure out the terms and conditions of the financing, which was structured as a direct unsecured loan. The full US $98 million contract is divided into stages. The US $15 million EDC is financing essentially allows for start-up, so that EMIS can start operating and generating cash flows to finance the next phase." Melanson adds that, from preliminary discussions to the signing of the loan agreement, it took about 12 months of hard work from EDC's Advanced Technology Team and its International Markets Team working with COM DEV's Team and the Canadian High Commission in Lagos.

"The Nigeria deal simply wouldn't have happened without EDC," says Davis. Holdway sums up that he expects COM DEV's relationship to grow in other markets including China and other developing nations where EDC's various insurance facilities can help Canadian companies in reducing the risk of such opportunities.

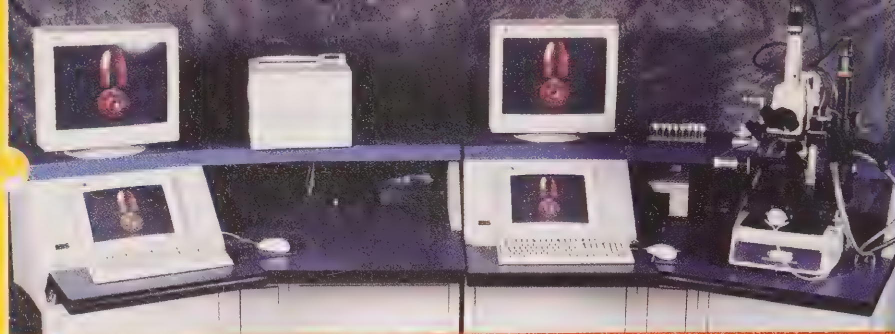
Bits & Bytes

- Canada is third among all nations in computing power, and fourth in computers per capita.

  Source: www.ottawaregion.com

- The federal government funds some 25% of all Canadian research and development.

  Source: "Facts About Science and Technology in Canada," www.scitech.gc.ca



Forensic Technology exports with deadly precision

In the early morning hours of October 14, 1999, police in Wilmington, Alabama were dispatched to a shooting at the south edge of town. Upon arrival, the units found two victims with gunshot wounds, lying outside a house. According to reported information, assailants had forced the men and a third companion to lie face down inside the home. Then shots rang out, and the two men, already wounded, leapt through the window to escape. The third man was not so lucky. He was found still inside, dead on the living room floor. Numerous 9 mm bullet casings littered the scene.

Exactly one week later, police units were dispatched to another shooting in a different part of town. This time, a single homicide victim was found in a stairwell, and again, 9 mm casings were found.

Police had few leads. Yet, both cases broke just four days later, when a forensic firearms technology called IBIS (Integrated Ballistics Identification System) confirmed the cases were in fact connected. Using this information, detectives quickly developed numerous leads, and shortly after receiving the ballistic confirmation, arrests were made and the weapon for both homicides located.

IBIS, developed by Forensic Technology in Montreal, is the world's only system with the field-proven ability to capture, store, retrieve and perform searches on both damaged or pristine bullet and cartridge case images in one system.

"The sharp rise in violent crime involving firearms in recent years caused an increased number of evidence exhibits requiring forensic examinations – and a more efficient method of conducting examinations, like IBIS," says Donna McLean, Director of Communications at Forensic Technology.

Indeed, IBIS and Forensic's related products are helping to solve crimes around the world. IBIS digitally captures the images of bullets and cartridge cases and stores them in a database. When new images are entered, IBIS automatically searches the database for potential matches from thousands of previously entered pieces of evidence, and ranks them according to the likelihood of a match. The analysis can be done locally, nationally or internationally, opening up tremendous possibilities to link previously "unlinkable" crimes.

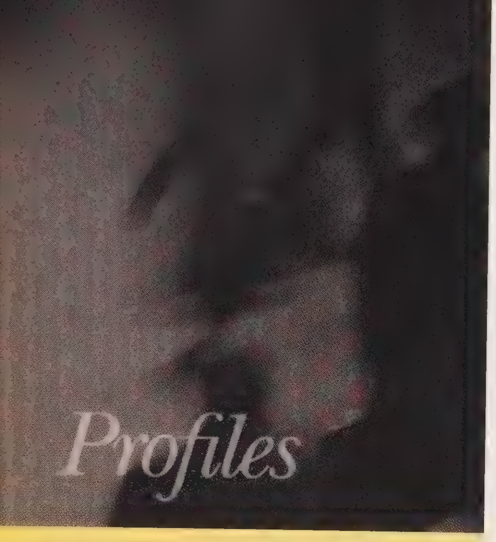
McLean says the challenges of developing such technology are primarily financial and technical. "Financially, because research to develop these products is expensive and results are difficult to predict," she says, "and technically, because these are new ideas and new uses for existing technologies."

There are also challenges when it comes to global exporting. "Dealing with different countries means dealing in different languages and working with different cultures," McLean says. "But that's also what makes it so exciting."

Because Forensic Technology's clients are police forces, which are run by governments, McLean says it's also necessary for the company to make their transactions part of the government's budgetary process.

"That's a problem EDC helps solve," says McLean. "Forensics began using EDC services about seven years ago to advance projects by providing alternate financing options to our clients. That way, there's a better chance for a project to get the go-ahead if the government's budget is tight."

McLean adds that dealing with EDC has been a positive experience. "We view them as a very professional organization," she says.



ACR Systems Inc.
Location: Surrey, B.C.
Business: Design, manufacture, and marketing of portable data loggers
Established: 1985
Number of employees: 30
Annual sales: over $5 million
Export business: 85%
Export markets: Worldwide, particularly the U.S., Western Europe, Japan, Australia
Contact: www.acrsystems.com

Guigné Technologies
Location: St. John's, Newfoundland
Business: Technology with expertise in acoustics
Established: 1989
Number of employees: 65
Annual sales: $6 million (1999)
Export business: 100%
Export markets: Worldwide, particularly the U.S., Norway, Chile, Scotland, France, Ireland, Croatia
Contact: www.guigne.com

COM DEV International
Location: Ottawa, Ontario
Business: Producer of wireless infrastructure
Established: 1974
Number of employees: 1,400
Annual sales: $205.9 million
Export business: 88%
Export markets: U.S., United Kingdom, China
Contact: www.comdev.ca

Forensic Technology
Location: Montreal, Quebec
Business: Technology that solves firearm crime
Established: 1992
Number of employees: 150
Annual sales: $17 million
Export business: 100%
Export markets: Worldwide
Contact: www.fti-ibis.com

Albert Rock of ACR Systems: Working Smarter, not Harder

Albert Rock wasn't planning to build a multi-million dollar business when he created his first data logger more than 20 years ago. He was simply trying to work smarter, not harder.

"My job originally was as a contractor, testing mechanical systems," Rock says. "It involved lots of troubleshooting, always finding a way to make things go faster or work more effectively." He often worked at hospitals and other complexes, taking readings of temperature and humidity and using the information to recommend ways to improve comfort levels or make the heating and air conditioning systems more energy efficient.

Then, when fuel prices began to climb around 1980, Rock had a problem – and an opportunity. "I kept getting more and more business, but there are only so many hours in a day," he explains. "So I made my first data logger to automatically take readings at one building while I worked at another – I could do two buildings at once."

The technology was also cost-effective, a real plus considering that back then, a computer still cost about $10,000. "But to make a little data logger was no big deal," says Rock. "I couldn't buy them, so I made them."

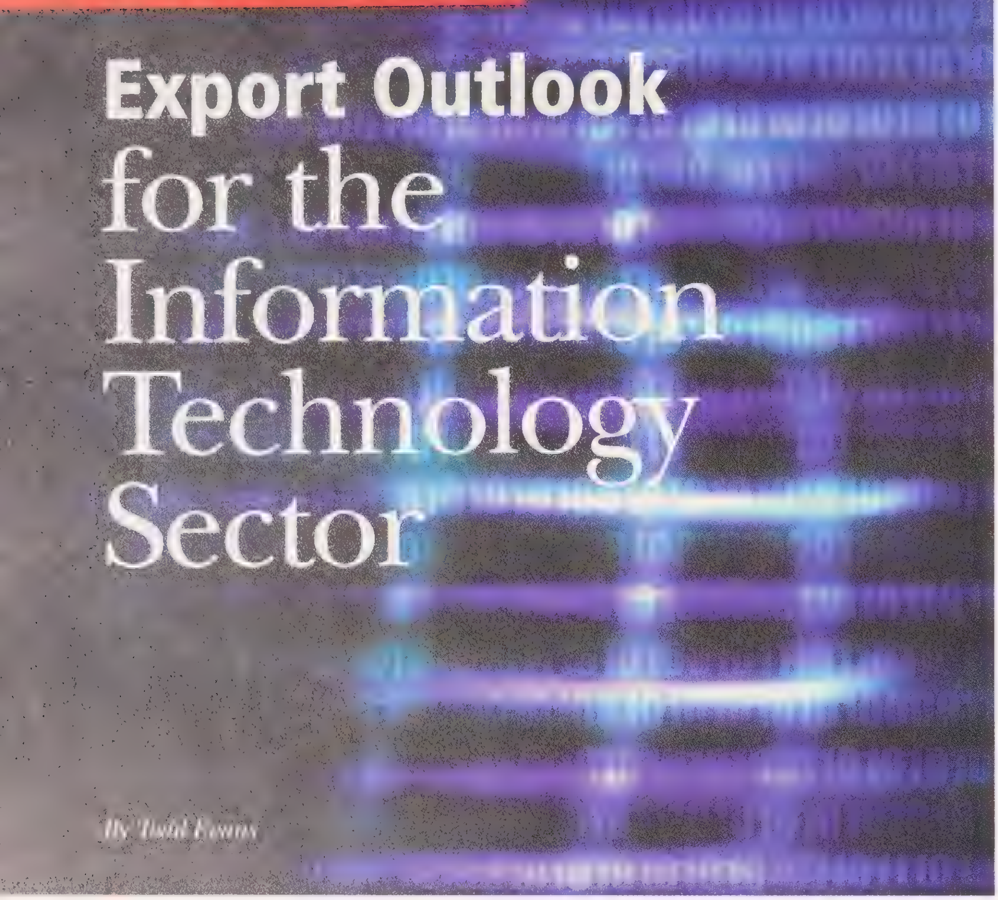
The problem was, Rock couldn't seem to keep his data loggers. "First I made 10 so I could do 10 buildings at once. But the provincial government wanted to buy all 10. So I made 20, and the federal government bought all those." Soon, Rock was hiring help to produce 150 to 250 data loggers a day, and ACR Systems was on its way to becoming a global technology leader.

Albert Rock, founder of ACR Systems, was recently presented with a National Aboriginal Achievement Award, in the category of Science and Technology.

In March, Rock was presented with a National Aboriginal Achievement Award, in the category of Science and Technology, in recognition of his work. The Awards were established by the National Aboriginal Achievement Foundation in 1993 to recognize career achievements by Aboriginal professionals in diverse occupations.

"I'm very glad about the award, but it's not science and technology that makes business happen," Rock says. "The business is based on people and the hard work of employees."

"It also makes you proud to see your product being used all over the world when you export it," adds Rock. "For some people there's a fear about exporting for the first time, but once you start, you find it's not hard. The fear is over and it's great."



Export Outlook for the Information Technology Sector

By Todd Evans

Recent years have seen significant increases in global investment intensity, particularly in telecommunications equipment, computers and other advanced technologies. Higher rates of business investment spending are being driven by falling prices for new machinery, combined with a competitive need to raise productivity and cut costs. Indeed, technology investment today is often characterized as "defensive" rather than "opportunistic" – companies feel that they need to invest in order to stay in business, because their competitors are already buying the latest technology and lowering their costs. The result has been a steady increase in the share of capital equipment in the production process, while the share of labour inputs has fallen.

Canadian companies that produce high-tech goods or related components, software or services have benefited from this trend. During 2000, for example, Canada's export sales of telecommunications equipment grew by over 60 per cent, sales of computer equipment rose by 19 per cent, and other machinery sales rose by nearly 18 per cent. These three categories now constitute nearly 20 per cent of Canada's total exports of goods.

This undercurrent of global investment spending remains intact, but the technology sector is not entirely immune from the business cycle. The next 12 to 18 months will see a slowdown in global IT spending as world economic growth gears back and then recovers to a more moderate, sustainable pace. Our forecast is for the world to post growth of about 3.2 per cent this year, and recover to about 3.7 per cent next year, well down from the almost five per cent growth rate seen in 2000.

The transition to slower growth in the past six months has been unusually abrupt, and the result has been a surge in inventories, particularly for telecommunications equipment. It will take until sometime in the second half of the year to work these inventories down. Combined with even tougher international competition, periodic financing difficulties and the maturation of the market for computers in the United States and Western Europe, this will see export sales growth slow for the Canadian information technology sector over the next year. Telecom equipment should experience sales growth of nine to 10 per cent in 2001, computers around five per cent and other machinery about six per cent, with the first half of the year weaker than the second half.

Technology investment today is characterized as "defensive" rather than "opportunistic."

The structural trend of increasing demand for new technology is expected to reassert itself once world economic growth reaches bottom, probably in the latter part of 2001. For example, a February 2001 survey of global corporations by the Gartner Group showed that 65 per cent of respondents plan to increase their information technology budgets by 13 per cent in 2001, a moderation from 2000 but still a respectable level of growth. A wide range of Canadian companies are well-poised to take advantage of that rebound. For 2002, we are expecting export sales growth of 13 to 14 per cent in the telecom sector, eight to nine per cent growth in computer equipment sales, and an increase of 12 to 13 per cent in sales of other machinery and equipment. ■

More details can be found within EDC's Global Export Forecast, Spring 2001, available on EDC's web site: www.edc.ca. Todd Evans is an economist with EDC's Economics Team and can be reached by e-mail at tevans@edc-see.ca.

A Steward of the Forest

Shawood Lumber meets a growing demand for eco-certified lumber at its remanufacturing plant in Langley, B.C.

By Cressida Barnabe

When Andy Shaw first came to Canada from England in 1966, he took a job with Rainier Canada in Holberg, Vancouver Island, as a cruiser – the first person to step into the forest and mark off the standing timber and determine the species and quality of trees within a specifed area. Now, more than 30 years later, his company is one of the first in Canada to sell lumber that adheres to strict environmental standards, as set by the Forest Stewardship Council (FSC).

Shaw established Shawood Lumber in 1979 to specialize in Western red cedar, which until that time had not garnered much interest, but Shaw sensed that a demand was growing in the marketplace. Throughout the 1980s, Shawood Lumber found its niche and opened a remanufacturing plant which takes logged and cut Western red cedar, cuts it to specification and then remanufactures the cedar until it reaches a superior quality and value. The plant now covers 11 acres, employs more than 60 people and inventories more than $10 million of high-grade cedar.

Shawood Lumber has been an EDC customer since 1998. "EDC has given us the security to be able to delve into markets confidently without taking undo risks," explains Shaw. "Knowing we have insurance gives us a very high comfort level."

FSC certification and Shawood's partnership with Timfor Contractors – a supplier of eco-certified Western red cedar based in Campbell River, B.C. – has developed international exposure and created opportunities for companies selling certified lumber. Shawood Lumber is looking forward to developing the eco-certified market; however, there are a number of roadblocks along the way. The future of selling eco-certified wood, according to Shaw, will rest on the availability of non-renewable timber licences and the co-operation of the provincial government.

"Currently, there is no provision in the issuance of licences to recognize environmentally friendly logging practices," explains Shaw. "Anyone can clear-cut and they're not disadvantaged. The FSC certified method of logging, while more costly, preserves the majority of the habitat by only selecting timber from a 25 foot corridor up to 2,000 feet long. This means that the traces of logging and its impact to the environment are minimal, and virtually unrecognizable within a matter of years."

Currently, certification is voluntary and is under review by the B.C. Ministry of Forests. While the Ministry is generally supportive of certification, it does not currently endorse one certification over another. And since the FSC method of logging is more costly, this puts companies like Shawood at a competitive disadvatage.

For Andy Shaw, the future of Shawood Lumber rests on the government's acceptance of certification and the future of eco-certified wood. Eco-certified logging may be the answer not only to a sustainable Canadian forest, but also to a sustainable logging industry.

Profile

Business: Eco-certified Western red cedar
Established: 1979
Number of employees: 60-70
Export business: 95%
Export markets: Australia, Belgium, Netherlands, New Zealand, United Kingdom
EDC relationship: Accounts Receivable Insurance
Contact: (604) 888-2225

Founded in 1993, the Forest Stewardship Council (FSC) is an international non-profit organization that supports the environmentally appropriate, socially beneficial and economically viable management of the world's forests. Based in Mexico City, the FSC consists of a cross-section of representatives from groups and professions interested in forestry and conservation.

For more information about FSC certification, visit their web site at www.fscax.org. To learn more about the progress of certification in B.C., visit the B.C. Ministry of Forests at www.gov.bc.ca/for.

The Western red cedar from Shawood Lumber carries the prestigious seal from the Forest Stewardship Council, for adhering to strict environmental standards.

Mexico Inc.: Under New Management

By Marvin Hough

The seal has been cracked on a new political chapter in Mexico. Vicente Fox is a charismatic former Coca-Cola executive whose inauguration as President on December 1, 2000 ended seven decades of rule by the Institutional Revolutionary Party (PRI).

In keeping with his take-charge business style, Fox has wasted no time in setting an agenda for change; but significant social and economic challenges loom large. Poverty and social inequality are rampant, almost all of the federal budget for 2001 is already spoken for, and only 13 per cent of next year's budget is available for Fox to work within changing priorities.

The new Fox administration has unleashed much promise for Mexico, but the challenges and obstacles are significant, and will not be overcome easily.

With its new President,Vicente Fox, at the helm, Mexico is under new management. Fox's practical "business-like" approach to government is a welcome change for both Mexicans and foreigners alike.

Since being elected, his administration has made a smooth transition from the previous PRI government and has outlined a clear agenda for change. To achieve its agenda, the Fox administration is in the process of drafting a number of reforms which will be submitted for congressional approval. These include strengthening the role of the private sector in energy generation, farming production, second level banking, telecommunications, transport and road and rail links. While Mexico is already in the process of economic deregulation and liberalization, the Fox government's proposed economic program envisages more effective and measured participation by the state. In addition, an Integrated Tax Reform will increase and strengthen public resources by socializing the benefits of economic growth through a more equitable distribution of income.

As a result of its economic strategy of fiscal and monetary discipline, coupled with trade and investment openness and structural reform, the Mexican economy has the potential to become stronger than ever before. →

Challenges on the Mexican horizon

As the Mexican reform process moves forward, there are significant challenges on the horizon.

Maintaining the rule of law. The new government must make sure that the country adopts a consistent and transparent application of the rule of law. Its success in this area can grow both domestic and international confidence – essential for realizing the government's economic goals for foreign investment.

Strengthening human capital. Mexico needs to move from today's average of seven years of education to a minimum of 10 years to effectively position itself to participate in the North American economy.

Diversifying the government's revenue base. Given the dependence on the U.S. economy and on oil for revenue, the government must move ahead to further diversify its revenue base. A key here will be the new administration's integrated fiscal reform plans that will provide more balance to the government's revenue stream.

Continuing structural reforms. Plans to open up electricity generation to private investment and to open up natural gas and petrochemicals are on the reform agenda. There is also a need to eradicate some of the remaining bottlenecks for opening up the telecommunications sector. Finally, the financial reform that is needed to create a fully functioning and broad-based credit system is of major importance.

Implications for Canadian firms

The economic and political stability which Mexico is experiencing and the policies, plans and challenges of the new administration result in a number of implications for Canadian firms doing business or planning to do business in the market.

Tougher competition for the Mexican market demands that Canadian firms establish a strong market presence and access essential market intelligence. Partnerships with Mexican firms are therefore a key strategy, but partners will need to be evaluated more closely than ever before to ensure that they have the requisite technical, financial and marketing capability to match and beat competition.

Canadian firms do have some competitive advantages on their side. Firstly, Mexico sees Canada as a valuable partner, and sometimes model, for the significant political, social and economic changes it is intent on undertaking. Canadian companies can build on this synergy. Secondly, Canada's NAFTA relationship with Mexico generally remains privileged in the face of Mexico's other free trade agreements. In particular, Canada retains the lowest overall tariff levels with Mexico and has a good foothold in many sectors.

Opportunities will emerge for Canadian companies to play a bigger role in such sectors as electric power, natural gas, and telecommunications as the reform process moves forward.

Significant opportunities will continue to develop with the large, industrial conglomerates (Grupos) who have established their international creditworthiness. In this regard, EDC is expanding its own relationships with key industrial Monterrey-based Grupos in order to facilitate orders from Canadian suppliers.

Also of note is the recently announced Puebla to Panama project, designed to create infrastructure links in the southern regional corridor stretching from the Central Mexican state of Puebla to the border with Guatemala. This project, presents opportunities for Canadian firms in a variety of areas including highways, ports, airports, electronics and telecommunications.

The ongoing reforms will have continuing widespread implications across all sectors and it is imperative that Canadian firms take the time to fully understand these implications. Thus while there will be growing opportunities, there will also be a need to do more homework. ■

Next issue of *ExportWise*:

At press time, *ExportWise* was part of a select media group granted an audience with Vicente Fox, President of Mexico, during his recent visit to Canada for the Summit of the Americas. We will publish some of his views on Canadian-Mexican trade in the upcoming issue.

Mexico:
An On-the-Ground Perspective

EDC's Regional Director for Mexico and Central America, Marvin Hough, has gathered extensive experience in international finance and insurance over his 23-year tenure with the Corporation. In addition to his current role in Mexico, he has played a key role in other significant markets such as China and India.

He believes the current opportunities for Canadian firms in Mexico are unprecedented and that the excitement is just beginning. Here, he shares with us his on-the-ground perspective from Mexico City. To contact Marvin Hough, e-mail mhough@edc-see.ca.

EW: What are your key challenges in the Mexican market?

MH: One of the biggest challenges is to identify and build relationships which will have the most value-added impact for Canadian businesses today and in the future. I think we sometimes underestimate the effort needed to develop effective relationships in a market like Mexico. However, there are tremendous benefits in doing this if we target the right companies.

One of my key challenges at this juncture is developing a solid understanding of the implications for Canadian companies and EDC of the changes being proposed and undertaken by the new government here. (See "Mexico Inc." on page 23 for details.)

EW: What have been the main factors behind EDC achieving a record business volume in Mexico in 2000?

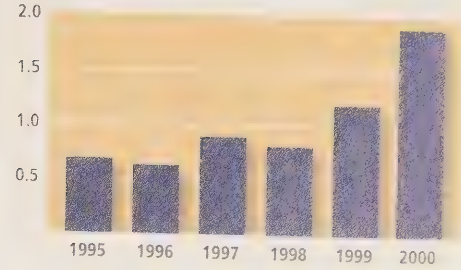
MH: Last year we had some significant transactions in key sectors such as telecom, electric power and oil and gas which had a strong impact on our business volume. On the telecom side, EDC's demonstrated capacity to undertake project financing and our relationship with Telmex have been key factors. Similarly, on the power side, EDC has been successful in working with other international lenders to arrange structured finance for key projects such as the Campeche power project being undertaken by TransAlta.

On the oil and gas side, we have some tremendous momentum going here in Mexico through a Team Canada approach. EDC has worked in very close collaboration with the Alberta Economic Development Department, Industry Canada, the Department of Foreign Affairs and International Trade and the Canadian Embassy here in Mexico to develop the potential to do more in this sector. EDC's signing last year of a US $200 million credit facility with Pemex (Mexico's national oil company) will be a major stimulus for growing Canadian involvement in this sector.

I should also mention that there are tremendous opportunities developing in the automotive, environmental and advanced technology areas where EDC will be playing an increasing role in the future.

All in all, I believe EDC is better positioned than ever before to help facilitate Canadian business through our industrial sector-based teams, regional offices across Canada and our representation here in Mexico. In this regard, it is noteworthy that of the 350 Canadian companies that EDC worked with in Mexico last year, 60 per cent were in the SME (small- and medium-sized enterprise) category.

Mexico was EDC's second largest market for business volume in 2000.



EDC business volumes, in billions

EW: How do you see the market changing for Canadian exporters and EDC over the next few years.

MH: I think one only has to look at what is currently happening in Monterrey to envision some of the changes. As the market continues to develop, we're going to see more opportunities with the private sector, more joint venture investment opportunities, and exciting applications for new technologies. Of course these changes will take time to develop and will not happen evenly throughout the country.

For EDC, we need to focus on developing strategic relationships with key private sector groups and leverage further opportunities for Canadian companies' involvement. As well, I think we are going to have to continue to demonstrate flexibility, efficiency, and market and industry expertise as we apply our services. There will be more structured finance transactions, more concentration on services companies, more of an investment focus, and of course a need to be well-positioned to evaluate risks.

It's an exciting place to be and the excitement will certainly continue. ■

Did you know?

The President is elected for a single six-year term and appoints the Cabinet.

December 1st is a statuary holiday every six years for the inauguration of the new President (next inauguration December 1, 2006).

The United States of Mexico is composed of 31 states and one federal district (Mexico City). States are divided into municipalities.

Mexican Railway Rolls to Success

Railroad analysts scoffed when Transportación Ferroviaria Mexicana (TFM) purchased Mexico's Northeast Railway — it was an antiquated, unprofitable 'disaster', they criticized. Today, TFM is having the last laugh after transforming the failing system into North America's most efficient railroad.

By Lauren Klump

In December 1996, the Mexican government decided to privatize its increasingly unprofitable National Railway System. Mexico's government divided the railroad into three portions (the Northeast, North Pacific and Southeast Railways) and opened a competitive bidding process.

The Northeast Railway was awarded to Grupo TFM, a partnership between Mexican company Transportación Maritima Mexicana and Kansas City Southern Railway. Skeptics deemed the outdated, inefficient railroad to be a foolish purchase, but TFM saw enormous growth opportunities. The company was confident they could bring the Northeast Railway to profitability.

TFM recognized the Northeast Railway's advantages. As the only route serving Nuevo Laredo, the busiest Mexican-American rail-freight exchange point, it was a vital NAFTA trade link. It also joined other systems at the U.S. border to form a network among Mexican, American and Canadian industrial centres.

TFM devised a plan to turn the Northeast Railway into a leading North American transportation system. The first steps were to invest in new communication and signaling systems, install computer equipment and add safety switches that enabled multiple track use.

The company then sought to update its locomotives. General Motors of Canada Limited's Diesel Division was an eager supplier, but one roadblock obstructed a deal: TFM needed financing. EDC and KfW (a German state-owned bank) stepped in and agreed to finance the purchase of 75 General Motors SD70 MAC locomotives. Greg Carter, GM's manager of export financing, asserts the importance of EDC's and KfW's role in the transaction. "EDC's entrepreneurship definitely sealed this deal…without it, a foreign competitor would have won the contract."

With newly efficient equipment and an upgraded infrastructure, TFM's operations proved remarkably successful: 1997 profits exceeded projections by more than 50 per cent; the company's 2000 profit margin was the rail industry's highest; and average trip times were cut nearly in half. No longer a laughing stock, the Northeast Railway was quickly becoming an industry leader.

TFM's chief financial officer, Mario Gonzalez, confidently says the company runs North America's best-managed railway. "The numbers speak for themselves. We have the highest annual revenue growth rate in the business and maintain the lowest operating ratio…and we plan to keep growing while becoming even more efficient," says Gonzalez.

EDC looks forward to helping TFM realize this vision. The Corporation recently participated in the amount of $30 million in TFM's commercial paper issuance, which will allow the company to procure additional Canadian goods and services." Our dealings with TFM are extending beyond the locomotive financing," says Marvin Hough, EDC's representative in Mexico. "We have a maturing relationship. TFM originally represented a bold, new risk, but is now one of our most important clients."

1996: Mexico's trains need a jump start

→ The Mexican government decides to privatize its increasingly unprofitable National Railway System.
→ Grupo TFM wins Northeast Railway bid.

1997: TFM sets the wheels in motion and gets rolling

→ TFM assumes control of the Northeast Railway, upgrades its infrastructure, and begins investments to make it a world-class system.

1998: On the right track ... Destination: success

→ Through joint EDC-KfW financing, TFM purchases GM locomotives.
→ TFM's management of the Northeast Railway yields impressive results:
  - Revenues are 15 per cent above forecasts.
  - Profits exceed projections by more than 50 per cent.
  - Average trip duration drops to 35 hours from 60.

→ As the sole North American railway to experience more than 20-per-cent annual revenue growth, TFM becomes an industry leader.

2000 and beyond: The EDC-TFM relationship continues rolling ahead

→ EDC participates in TFM's commercial paper program in support of further Canadian supply.
→ EDC looks forward to further assisting TFM to do business with Canadian suppliers. ■

Mexico at a glance

Canadian Opportunities: Advanced technology, telecommunications, mining & power, oil & gas, automotive, transportation, industrial equipment, agriculture/agri-food as well as emerging sectors such as environmental, educational products and services.

EDC's position: EDC is open in Mexico under all of its programs with both public and private buyers and is actively seeking new business.

Capital: Mexico City
Language: Spanish and over 50 indigenous languages
Time difference: EST -1 h (winter)
Currency: Mexican Peso
Business hours: Monday-Friday, 9:00 a.m. to 1:00 p.m./3:00 p.m. to 7:00 p.m.
Statutory Holiday: January 1, February 5, March 21, May 1, September 16, October 12, November 20, December 8, December 12

Contacts:

Mexican Embassy in Ottawa
Fernando Espinosa
Second Secretary for Economic Affairs
Tel.: (613) 233-8988 ext. 259
Fax: (613) 235-9123
E-mail: espinosa@embamexcan.com
Internet: www.embamexcan.com

Canadian Embassy in Mexico
Geneviève des Rivières
Minister Counsellor
Tel.: (525) 724-7930
Fax: (525) 724-7982
E-mail: genevieve.desrivieres@dfait-maeci.gc.ca
Internet: www.canada.org.mx

DFAIT
M.R. Vlad
Deputy, Director Trade Relations
Mexico Division (LMR)
Tel.: (613) 995-8742
Fax: (613) 996-6142
E-mail: mitch.vlad@dfait-maeci.gc.ca
Internet: www.dfait-maeci.gc.ca/mexico

Canadian Commercial Corporation
Tel.: (613) 996-0034
Toll Free: 1-800-748-8191
Fax: (613) 995-2121
E-mail: info@ccc.ca
Internet: www.ccc.ca

CIDA Inc.
Marie-Claude Harvey
Program Manager
Tel.: (819) 953-7942
Fax: (819) 953-5024
E-mail: marieclaude_harvey@acdi-cida.gc.ca
Internet: www.acdi-cida.gc.ca/inc

EDC
Marvin Hough
Regional Director, Mexico and Central America
Tel.: (52) 5387-9316
Fax: (52) 5387-9317
E-mail: mhough@edc-see.ca
Internet: www.edc-see.ca

Dominique Bergevin
Regional Manager, Mexico, Central America and Southern Cone
Tel.: (613) 598-3271
Fax: (613) 598-2503
E-mail: dbergevin@edc-see.ca
Internet: www.edc-see.ca

Plastics & Packaging Mission to Mexico

On the heels of the recent automotive mission success, EDC, Department of Foreign Affairs and International Trade, and Industry Canada will join forces to match buyers and sellers in the plastics and packaging equipment industry.

Mexico imports over 80 per cent of its plastics and packaging equipment, representing close to $2 billion annually. And the market is expected to grow by an additional 15 per cent over the next three years.

If you are a Canadian machinery manufacturer or services provider ... join us!

Date: July 2-5, 2001
Locations: Monterrey and Mexico City
Contact: Dennis Shanley, Industry Canada
Tel.: (613) 954-3247
E-mail: shanley.dennis@ic.gc.ca

Automotive Mission Possible

It's a simple but effective strategy: put motivated suppliers together with motivated buyers.

The result: a potential of $500 million in sales for Canadian companies in the business of designing and building machines and tooling equipment for making auto parts.

By [illegible]

Did you know?

Mexico is a member of the World Trade Organization (WTO).

Mexico's population is approximately 100 million.

Canada is Mexico's 2nd largest trade partner after the United States.

This is the strategy behind an innovative automotive trade mission to Mexico organized earlier this year by EDC, Industry Canada, Department of Foreign Affairs and International Trade and several leading industry associations.

"The car and small truck industry in Mexico is expected to grow by 40 to 50 per cent by 2004," says Craig Wiggins, a Relationship Manager with EDC's Automotive Industry Team and a veteran of more than a half dozen trade missions to Mexico.

"Vehicle manufacturers are outsourcing an ever-increasing amount of manufacturing for automotive parts. This means opportunities for auto industry suppliers are no longer directly with the vehicle manufacturers, but with those Tier 1 auto parts suppliers, targeted by this mission." A Tier 1 company is one that deals directly with the big automakers – General Motors or Ford – in the supply chain.

In the past, issuing a generic call to businesses interested in being part of a delegation formed these trade missions. This time, however, 15 Mexican multinational companies, not well known to Canadian suppliers, were asked to provide their procurement requirements for the next two years. This information was then used to recruit Canadian suppliers.

"Only Canadian suppliers who could deliver what was specified, expressed interest; and only those who were then selected by Mexico buyers, were asked to participate," says Wiggins. "We felt this specific targeting would dramatically increase the chances of concluding deals – and it did."

During the five-day trade mission, 75 meetings were arranged between the Mexican buyers and 14 Canadian suppliers. Seven companies confirm they have received quotes and/or orders and several others say they are following potential leads.

Dennis Shanley, a Senior Commerce Officer with Industry Canada, says this new approach took over a year to pull together. "We knew it would be logistically complex and require a great deal of planning to ensure everything went smoothly. There were surprisingly few problems considering we held meetings in both Mexico City and Monterrey."

The new approach builds on a winning formula first tested in 1999 when EDC and Industry Canada hosted a delegation of Mexican Tier 1's to Canada.

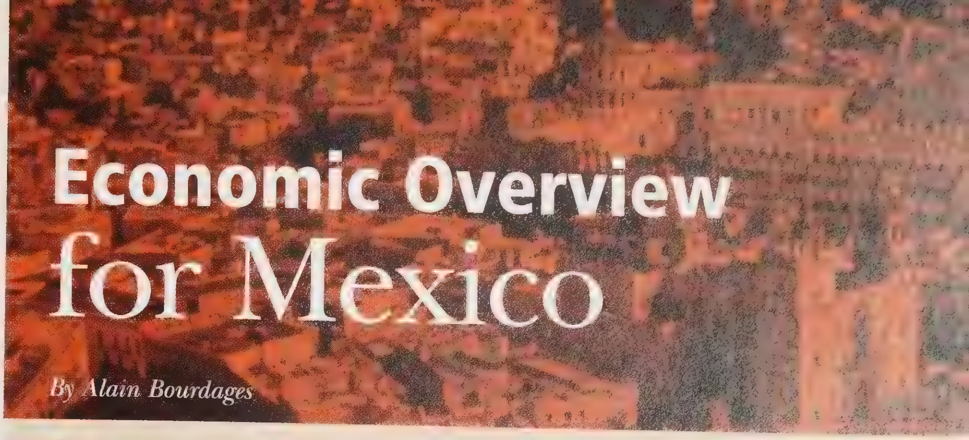
"Of the 39 Canadian companies that were introduced to Mexican buyers, 13 were either awarded business or placed on bid lists for future projects," Shanley said. "This encouraged us to take the next step."

CMS Manufacturing Systems Inc. is a Markham, Ontario-based computer software company that provides supply chain management solutions to small and mid-range manufacturers. According to Aidan Killean, a Business Development Manager with CMS, the timing of the trade mission couldn't have been better.

With more than 80 per cent of their business going to the United States, CMS had made recent moves into Germany, France, Hong Kong, China and Malaysia but were only in the preliminary stages of researching potential in Mexico.

"We toured eight plants in five days," Killean said. "It would have taken us months to make the same arrangements. I was also a little skeptical about how big a player Mexico was going to be until I actually went down there. I was impressed with the level of sophistication and we're now in the process of developing an aggressive marketing plan to build on the contacts we've made."

Wiggins sees potential for this approach in other industries. "There is already interest in a technology mission. The responses to a recent e-mail recruitment message tell us that exporters like this more proactive approach." ■



Economic Overview for Mexico

By Alain Bourdages

Mexico's economic performance has become the envy of its Latin American counterparts. In 2000, the country registered an astonishing seven per cent growth rate, second only to the Dominican Republic for the top spot in the hemisphere.

Increasing demand for Mexico's low-cost manufactured goods in the United States led to a 22 per cent increase in their export sales in 2000. In order to keep up with increasing strains on production capacity, Mexico also succeeded in attracting close to $20 billion in foreign direct investment last year, surpassing the performance in 1999 by seven per cent.

Thanks to prudent monetary management, inflation continued to drift down last year, settling in at 8.9 per cent – despite the economic boom and a 12 per cent increase in wages. The central bank has promised a further 2.5 per cent cut in inflation before 2002. One of the immediate benefits of this anti-inflation program has been a steep decline in interest rates, from over 30 per cent two years ago to just over 14 per cent at year-end 2000.

Given this favourable backdrop, the Mexican peso has been solid for the last two years, remaining in a narrow range against the powerful U.S. dollar since late 1998. Moreover, Mexico's improved outlook led Moody's to award an investment grade rating of Baa3 to Mexican debt in the spring of 2000. This dramatically lowered Mexico's international financing costs compared to other countries. For example, Mexican 10-year bonds currently offer investors about 300 basis points over equivalent U.S. treasury bonds – around half the spread on similar Argentinean and Brazilian instruments.

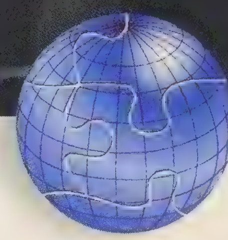
Despite this positive backdrop, the Mexican economy faces significant challenges in 2001. The growing integration of Mexico with the United States due to NAFTA means that nearly a quarter of Mexican GDP is now sold in the U.S. market, which is experiencing a significant slowdown this year. We expect the U.S. economy to grow by about two per cent, on average, in 2001, and three per cent in 2002, well down from growth of five per cent last year. One of the hardest-hit sectors of the U.S. economy will be the auto sector, in which Mexican producers have a heavy stake. Accordingly, America's slowdown will shave about two percentage points from Mexico's growth rate in 2001 taking it down to about three to four per cent, with the first half of the year weaker than the second half.

The government continues to work on improving Mexico's structural fundamentals. In order to help reduce its vulnerability to U.S. shocks, Mexico has strategically sought to strengthen commercial relations with Europe. It is also making efforts to rein-in the fiscal deficit and to reform the tax system, cracking down on tax-evasion and reducing the country's dependency on oil revenue for fiscal purposes.

Based on these fundamentals, we expect Canadian export sales to Mexico to increase by about five per cent in 2001 and again in 2002. This is much less than the increase of over 28 per cent in 2000, but a solid growth outlook nonetheless. ■

Alain Bourdages is an economist with EDC's Economics Team and can be reached by e-mail at abourdages@edc-see.ca.

Global Vision Brings Global Opportunity



In the summer of 1999, James Gibbons, Vice-President of Hetek Solutions Inc. (www.heathltd.com), gave a student an opportunity. Today, Hetek is still reaping the benefits.

By Nils Engelstad

After reading an article about an upcoming Junior Team Canada Mission to Kuala Lumpur, co-ordinated by the non-profit organization Global Vision, and recognizing the natural link with Hetek's ambitions to crack the Malaysian market, Gibbons decided to sponsor one of the students – myself – for this mission.

There was one month left before the Mission launch date. We wasted no time. Within a month, I had tried out Hetek equipment in the field, developed plans with Hetek's marketing co-ordinator, and was briefed by the Hetek management team.

Hetek is a London, Ontario-based corporation providing environmental solutions to prevent liquid and energy losses across Canada and internationally, including Trinidad and Tobago, Barbados, and the United States. The company offers a diverse line of technical and consulting services to utilities, municipalities, governments and private industry in the areas of potable water, wastewater, gas/energy, training and education, and environmental services. As a member of the JTC Trade Mission to Kuala Lumpur, I would have the opportunity to showcase Hetek's Canadian environmental products and services in Malaysia.

While in Malaysia, I met with local water authorities in several states; government agencies responsible for the environment, water, and infrastructure; as well as facilitating the first meeting with a potential joint venture partner. When I returned, I submitted a written report along with both market and cultural intelligence to Hetek and presented my findings to senior management and several corporate directors.

Hetek used this report to gain greater insight into the Malaysian market, as well as to reaffirm the opportunities in the region. Most recently, Hetek signed a joint venture agreement in Malaysia in December 2000 and is in the process of setting up an office and providing training to their local partners.

In an interview with their President, Wayne Hennigar, I discussed the benefits and pay-offs from being part of a Junior Team Canada full-circle partnership. He felt Global Vision had "definitely provided a value-added service and that Hetek would continue to support Global Vision's Junior Team Canada program." He also noted that the sponsorship cost Hetek $2,500, and today, Hetek enjoys a market opportunity estimated at $80 million in Malaysia over the coming decade.

Terry Clifford, President of Global Vision, explains the formula for success: "We recruit the best young ambassadors for trade reps, and we train with world-class operators such as EDC. Global Vision has a system to get into world markets so we can cost-effectively close the circle for Canadian SMEs abroad." ■

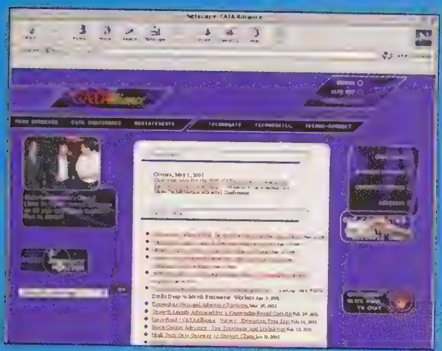
Nils is currently completing his undergraduate degree in international relations and political science at the University of Toronto. He can be reached at nils@ecg.on.ca

For further information on how your company can get involved with Junior Team Canada, please visit www.gvconnects.com. Upcoming missions include: Malaysia, Philippines, Japan, Korea, Taiwan and Mexico.

Advanced Technology and Mexico Information Resources

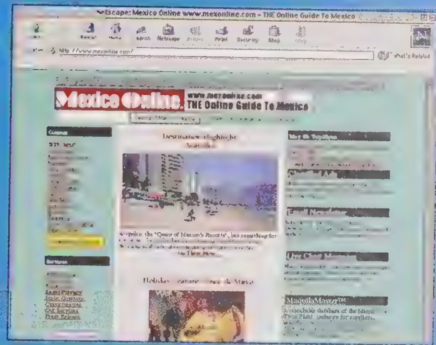
By Brenda Brown

The web sites highlighted below provide valuable information to complement this issue's industry and geographic features: Advanced Techonology (page 10) and Mexico (page 22).



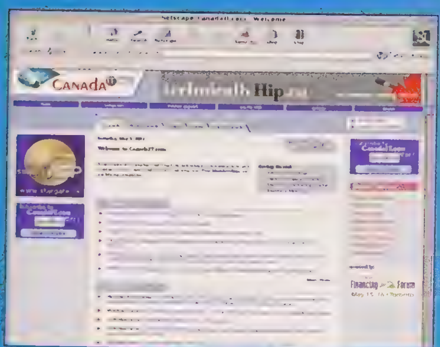
www.cata.ca

The Canadian Advanced Technology Association's site provides business tools to help companies conduct employee surveys, arrange for travel services and develop on-line investor portfolios. Also has a number of resource centres to provide information on taxes, public relations and human relations.



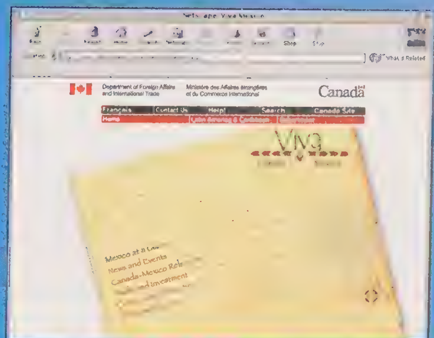
www.mexonline.com

Mexonline is an "all inclusive" site for businesses, travellers and those looking for job opportunities in Mexico. Provides on-line sourcing directly for both buyers and sellers through MaquilaMaster, its trademarked service.



www.canadait.com

Canada IT provides the infrastructure and marketing, while Canadian companies provide the content for this site. The result is a number of free services including company profiles, news releases and an event calendar. It also provides information on venture capital and a job board with thousands of job listings.



www.dfait-maeci.gc.ca/mexico

The Department of Foreign Affairs and International Trade has dedicated a section of its site to trade in Mexico which includes information on trade relations, travel and consular services and links to other sites and strategic market information.

Brenda Brown is a Web Editor with EDC's E-Business Team. She can be reached at brbrown@edc-see.ca.

EDC Tool Kit

EDC offers a wide range of financial products to Canadian companies and their customers abroad. The following is a summary of these products.

→ Credit Insurance

Global Comprehensive Insurance (GCI) – protects domestic and/or export accounts receivable against risk from certain events including: default, buyer bankruptcy, repudiation, non-transferability of funds, termination/ cancellation of contract, or political disturbances; improves exporter's ability to secure working capital financing from bank.

Export Credit Insurance (ECI) – same as Global Comprehensive, except for small businesses.

Documentary Credit Insurance (DCI) – protects Canadian banks against risk of non-payment by foreign banks.

Specific Transaction Insurance (STI) – coverage against contract frustration and non-payment risks for same events as GCI but coverage is limited to one specific contract (cover also available for pre-receivable period, service contracts as well as film and television rights).

Sub-Supplier Domestic and Foreign Risks – covers sub-suppliers against contract frustration and non-payment risks.

Equipment (political risk insurance) – protects Canadian exporter's equipment at a job site against loss resulting from certain political risks.

→ Financing

Direct Loan – EDC lends money to foreign corporations and government entities to enable them to buy goods and services from Canadian exporters.

Line of Credit – EDC lends money to a foreign bank that in turn lends to buyers of Canadian goods and services. Provides fast and simple financing for small transactions.

Note Purchase – EDC purchases promissory notes on a non-recourse basis issued by the buyer to the exporter.

Purchase of Receivables – EDC purchases exporter's receivables at a certain fixed discount.

CIBC Grow Export – EDC guarantees 50 per cent of loans made by CIBC to small, knowledge-based companies with specific export contracts.

Leasing – EDC often participates as a debt provider to the lessor.

Equity – assists Canadian companies in securing export opportunities through the provision of medium-term investment capital.

Project Finance – used for large infrastructure projects as well as other large projects for which direct guarantee of project sponsor is not available.

Master Accounts Receivable Guarantee (MARG) – allows banks to provide operating lines secured by exporter's foreign accounts receivable.

Small Exporter Guarantee Framework – provides guarantees to Canadian banks for loans made to foreign governments and banks; increases financing options available to Canadian small business exporters by risk-sharing with banks.

Northstar Trade Finance – a public-private sector partnership providing fast and efficient buyer financing for smaller capital goods export transactions.

Scotia Americas Capital Equipment Program – used by Canadian companies to finance the purchase of capital equipment in Argentina, Chile, El Salvador, Jamaica or Trinidad and Tobago.

→ Contract Bonding

Bid Security Guarantee (BSG) – protects banks from any wrongful calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

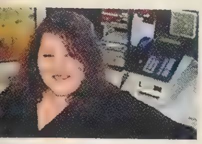
Direct Surety Bond Support – by providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

Political Risk Insurance (PRI) – protects Canadian investors against political risks on projects of benefit to Canada.

Interested in an up-to-date list of all of EDC's available Lines of Credit (LOC) worldwide? They're on-line at: www.edc-see.ca/loc.

ExportWise

Editor
Julie Harrison
jharrison@edc-see.ca



Production Assistant/ Circulation
Deborah Chapman
dchapman@edc-see.ca

Creative Director
Phil Jones
pjones@insight communications.ca

Translation
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Printing Services
The Lowe-Martin Group

Contributors
Cressida Barnabe, Alain Bourdages, Brenda Brown, Jane Daly, Nils Engelstad, Todd Evans, A. Ian Gillespie, Marvin Hough, Lauren Klump, Scott Shepherd, Patricia Smith

EDC Advisory Board
Brenda Brown, Marc Deschênes, June Domokos, Andrew Douglas, Ruth Fothergill, Linda Graupner, Walt Hutchings, Suzanne Joberty, Leslie Kenway, Diana MacGibbon, Keith Milloy, Jayne Watson

EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

EDC
151 O'Connor Street,
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada

EDC
SEE

E-mails to the Editor

→ To the Editor:

Your article that appeared in the Winter/December 2000 issue under the heading "Think your U.S. deals are risk-free? Supplier beware" has factual inaccuracies that need to be corrected since they are detrimental to our business.

All Canadian banks clear their U.S. cheques through U.S. clearing agents and, once a cheque gets into the U.S. clearing system, it falls under the U.S. clearing rules known as "Regulation CC Availability of Funds and Collection of Checks" which, amongst other things, provides for cheques to be returned within 24 hours from midnight of the date that the cheque is presented for payment to the drawee bank.

Consequently, it is clear from the above that our clearing bank in the U.S. would act on our behalf in the case of a dispute over an incorrectly returned cheque and that a cheque cleared to the U.S. from Canada should not be any more at risk once it hits our U.S. clearing bank than if it were cleared directly in the U.S. Wire transfers are viable alternatives to cheques for payments from the U.S. but the article conveyed the erroneous message that accepting cheques carries a higher risk than is actually the case.

Regards

Charles Attard
Vice President
Global Trade Finance
Toronto, Ontario

→ Response from Editor:

While our exporters' experience is factual, the article did not indicate the method of clearing used in each case.

We clarify that where the Canadian bank in question sends the U.S. cheque to a bank in the U.S., acting as clearing agent for the Canadian bank, the cheque at that point enters the U.S. clearing system and receives the same protections as if it had been written by a Canadian company. The U.S. bank would act on behalf of the Canadian bank (and its customer) in the case of a dispute with another U.S. bank over an incorrectly returned cheque and the Canadian bank would thus have recourse available to it.

However, where the item in question is, for whatever reason, not sent through the regulated clearing system and instead treated as a collection item (sent directly to the bank upon whose account the cheque was written), uncertainties such as those faced by our exporters can arise.

→ To the Editor:

This is to congratulate *ExportWise* for its valuable articles in every issue. I particularly appreciate the information you have provided through the article "Structuring an Export Contract: When a Handshake is not Enough" (March/Spring 2001 issue). The information is basic but is very useful as it serves as a good reminder to marketing people and contract negotiators who oftentimes overlook the "little things" in their excitement to close up a deal. Needless to say, extra caution is needed when doing business internationally as business law and market conditions may vary from region to region, from country to country to some extent. I am looking forward to reading Part 2 of this article in your next issue of *ExportWise* magazine.

Marciano S. Quiambao
Business Analyst
Orenda Aerospace Coporation
Mississauga, Ontario

Tell us what you think

ExportWise welcomes all feedback on articles, as well as suggestions for story ideas.

E-mail the editor at: **exportwise@edc-see.ca** or mail a letter to EDC, 151 O'Connor St, Ottawa, Canada K1A 1K3, attention: *ExportWise*.

Change of Address

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Canada's Exporters Face a U-shaped Year

The slowdown in the U.S. economy is denting Canada's export sales this year, but stronger growth should return late in 2001 and into 2002.

by Stephen S. Poloz

The slowdown in the U.S. economy this winter was widely expected. Last year's combination of rising interest rates and skyrocketing oil prices was sure to produce a quieter year in 2001. But a couple of complications have produced a more pronounced slowdown in the U.S. economy than most were expecting six months ago.

The first complication was the near collapse of tech-sector equities that has taken place. This has wiped out $3 to 4 trillion in U.S. paper wealth, which is sure to dent consumer confidence and lead to some moderation in spending. The second complication was the credit crunch that emerged in the U.S. technology sector late in 2000. This led a number of companies to delay key investments, particularly in the telecom sector. Inventories have ballooned as a consequence, and even a quick return to steady growth will mean a stock overhang that will take several months to unwind.

When the U.S. economy has problems like this, all other countries feel the effects to some degree. The result will be slower global economic growth this year, and a downgrading of Canada's export sales outlook. Global economic growth should average about 3.2 per cent this year, a significant drop from last year's performance of nearly five per cent. For 2002, we expect a return to trend growth of about 3.7 per cent for the world.

Taken together, this outlook points to a fairly flat year for Canadian exporters in 2001, with growth in sales projected at two to three per cent, followed by growth of seven to eight per cent in sales for 2002. Moreover, the pattern in 2001 will clearly be U-shaped, with the weakness concentrated in the first half of the year. Indeed, the trajectory will be a "lazy-U" since we will return to a more moderate pace of growth than we saw in 1999.

Sectorally, the brunt of the slowdown is being borne by the motor vehicle sector. This adjustment is not entirely cyclical, as many would acknowledge that the industry has too much capacity and the extraordinarily high level of activity in 1999-2000 was unlikely to be sustained. The cyclical slowdown is forcing that acknowledgement, and is acting as a catalyst to more profound adjustments in the industry.

As for areas of strength, machinery and equipment exports will pass automobiles this year in terms of their importance to the Canadian economy. Aerospace exports are projected to remain very strong, with 20 per cent growth in 2001 and 27 per cent in 2002. Telecommunications sales, which were a leading category in 2000 at over 60 per cent growth, are expected to slow to around nine per cent growth this year, and then to recover to 14 per cent in 2002.

Another area of strength in Canada's export outlook is the agri-food sector, with growth in excess of eight per cent projected for both years. The resource sector is generally looking at a U-shaped pattern, with some softness this year made up during the global recovery in 2002. In particular, the value of energy exports is expected to rise by five to six per cent this year, and 11 per cent next year, after jumping by 80 per cent in 2000. Consumer goods exports and services exports also should exhibit this U-shaped pattern, with services in particular being an outperforming sector.

The bottom line? 2001 will not be a banner year for Canadian exporting companies, but it should be a positive year nonetheless. The deceleration in global economic activity was widely expected, even if its magnitude is proving to be greater than envisioned, and the adjustments more compressed. World economic fundamentals remain solid, pointing to a brightening picture for Canadian export sales in the second half of 2001 and into 2002.

Stephen Poloz is EDC's Vice-President and Chief Economist. He can be reached at spoloz@edc-see.ca.

EDC Contacts

Companies with annual export sales of up to $1 million can call our team of SME specialists at

1 800 850-9626

Companies with annual export sales exceeding $1 million can call

1 888 332-3777

to be automatically connected to the regional office nearest you.

Western Canada

Jim Christie
Regional Vice-President
Tel.: (604) 638-6950
E-mail: jchristie@edc-see.ca

Vancouver:
Blair Wilson
Business Development Manager
Tel.: (614) 638-6950
E-mail: bwilson@edc-see.ca

Winnipeg:
Lewis Megaw
Business Development Manager
Tel.: (204) 975-5090
E-mail: lmegaw@edc-see.ca

Calgary:
Bruce Stanton
Business Development Manager
Tel.: (403) 537-9800
E-mail: bstanton@edc-see.ca

Edmonton:
Karen Goss
Business Development Manager
Tel.: (780) 702-5233
E-mail: kgoss@edc-see.ca

Ontario

Ruth Fothergill
Regional Vice-President
Tel.: (416) 640-7600
E-mail: rfothergill@edc-see.ca

Toronto:
Laura Gainer
Business Development Manager
Tel.: (416) 604-7600
E-mail: lgainer@edc-see.ca

David Little
Business Development Manager
Tel.: (416) 604-7600
E-mail: dlittle@edc-see.ca

Ottawa:
Hal Miller
Business Development Manager
Tel.: (613) 597-8523
E-mail: hmiller@edc-see.ca

London:
Lillian Gagnon
Business Development Manager
Tel.: (519) 963-5400
E-mail: lgagnon@edc-see.ca

Quebec & Atlantic Canada

Henri Souquières
Regional Vice-President
Tel.: (514) 908-9200
E-mail: hsouquieres@edc-see.ca

Montreal:
Françoise Faverjon-Fortin
Business Development Manager
Tel.: (514) 908-9200
E-mail: ffaverjon-fortin@edc-see.ca

Quebec City:
Jean-François Renaud
Business Development Manager
Tel. : 418-266-6130
E-mail: j-frenaud@edc-see.ca

Halifax:
David Surrette, Director of Business Development, Atlantic Canada
Tel.: (902) 442-5205
E-mail: dsurrette@edc-see.ca

Moncton:
Charles Gaudet
Business Development Manager
Tel.: (506) 851-6066
E-mail: cgaudet@edc-see.ca

St. John's:
Darrell Spurrell
Business Development Manager
Tel.: (709) 772-8808
E-mail: dspurrell@edc-see.ca

International Representation

Mexico:
Marvin Hough, Regional [illegible]
for Mexico & Central [illegible]
Tel.: (011) 525-387 [illegible]
E-mail: mhough@edc-[illegible]

Brazil & Southern Cone
J. Claudio Escobar, Regional [illegible]
for Brazil & Southern Cone [illegible]
Tel.: (011) 5511-5509-482[illegible]
E-mail: cescobar@edc-see[illegible]

China:
Alison Nankivell
Regional Director for China
Tel.: (011) 86 10-6532-3536, [illegible]
E-mail: anankivell@edc-see.ca

Export Development Corporation
Head Office
151 O'Connor
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

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ExportWise

Published by Export Development Corporation

SMALL BUSINESS: *Surviving and Thriving*

Jack Gin's inspiring story as owner of the ultra-successful Extreme CCTV, whose surveillance cameras have been used by the Queen of England, a former U.S. President and the blockbuster television series *Survivor II.* 4

Competition *Breeds* Content

A. Ian Gillespie
President and Chief Executive Officer

This Fall, you will no doubt be solicited by various organizations to attend an Award Gala or two. Actually, three big ones immediately come to mind: the Canada Export Awards (www.infoexport.gc.ca/awards-prix) presented by the Department of Foreign Affairs and International Trade (DFAIT), the Young Entrepreneur Awards (www.bdc.ca) presented by the Business Development Bank of Canada (BDC) and the Canadian Woman Entrepreneur of the Year Awards (www.cweya.com) organized by the University of Toronto's Rotman School of Business.

Without revealing the contents of "the envelope, please," I can tell you that the winning entrepreneurs and exporters are all pushing the envelope. They bring Canadian know-how, quality and time-honoured values to global markets, while creating jobs and pride at home. They innovate, invest and inspire.

If you look at the Young Entrepreneur Awards, where EDC presents the Export Achievement Award, it is awe-inspiring how youth can literally and virtually create something out of thin air or cyberspace. All the winning business founders are 29 or younger and have made a mark with their ventures through product or service innovation, operating success and community involvement, or by launching into foreign markets.

Through the Canadian Woman Entrepreneur of the Year Awards (CWEYA), women of all ages are being recognized for start-up success, lifetime achievement, innovation, impact on their local economy, and exports. The latter award will be presented for the first time by EDC at the awards gala this November.

As CWEYA puts it, all the winners have "the attitude, creativity, daring and powerful drive to succeed." These words also aptly describe the Canada Export Awards (CEA) recipients, who are "building for tomorrow" – the theme of this year's gala. EDC has been linked to the CEA since its inception – 20 years ago come 2002 – and is proud presenter of the Smaller Exporter Achievement Award. All of the winners represent the brightest stars of our trade scene.

EDC is also proud to take part in many other award programs, past and future. These include the Profit 100 Awards for Canada's Fastest Growing Companies, the Ontario Global Trader Awards and, new next spring, the GLOBE Awards for Environmental Excellence (which includes an export award).

On a similar note, I would be remiss if I didn't mention the 2001 Excel Award that this magazine and its staff recently received from the International Association of Business Communicators.

So here's to all of Canada's experienced and up-and-coming business dynamos. As these award programs show, competition breeds excellence and, for the deserving winners, no doubt some contentment too!

A. Ian Gillespie, C.I.T.P.

EDC is launching its own competition this Fall, the Go Global: Youth Trade Challenge. *With $5,000 as top prize, eligible youth won't want to miss out. Check it out at www.epals.com/goglobal.*

Fall 2001

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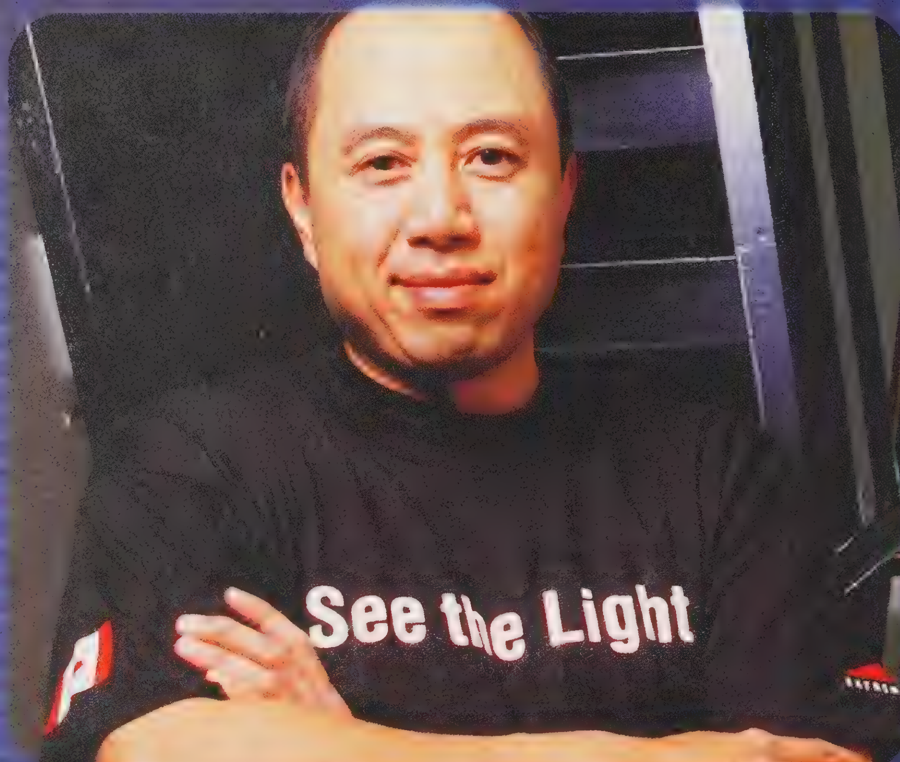
Out shine
Out sell
Out smart



Canada's small businesses are surviving – and thriving – in the international marketplace.

By Julie Harrison

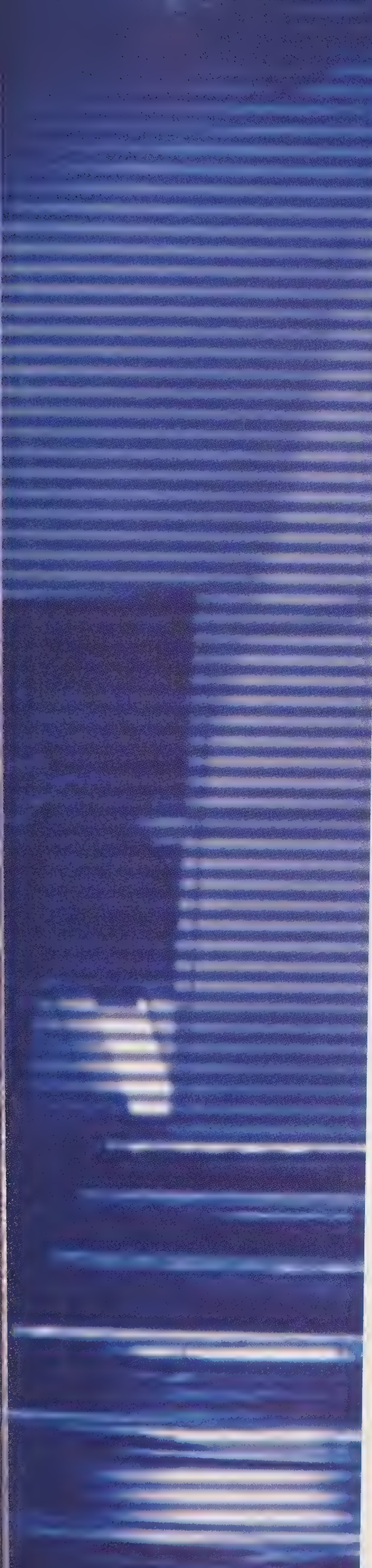


Photo by Goldie Photography

At first glance, it's hard to see what an urban dog lover, a rural goat farmer and a West Coast structural engineer could possibly have in common. They all started small businesses. They all developed markets outside Canada. And now, they all manage thriving enterprises. Along the way, they've learned to *outshine, outsell* and *outsmart* the competition.

Extreme CCTV *outshines* the competition

Jack Gin never dreamed of running his own business. Trained as a structural engineer in British Columbia, he had always counted on having a "normal" job. Gin worked for several export technology companies, one of which manufactured security cameras. Although he didn't recognize it at the time, he was gaining the experience that would later enable him to become a successful entrepreneur. While at these firms, Gin learned the security market inside and out, and developed a thorough understanding of its technologies. He was happy, and really enjoyed working with his international clients.

He also felt increasingly stifled working for someone else. "I don't want to sound like Captain Kirk," Gin explains, "but I really wanted to take this technology to places where others had not gone before." He recalls his wife Sylvia planting the seed: "Jack, you're really meant to build your own company." But with a household that included young children and aging parents, the risks were considerable. Eventually, the husband and wife team set aside their reservations. In 1997, they emptied their savings accounts, re-mortgaged their Burnaby, B.C. home, and founded Extreme CCTV.

British Columbia has the fastest growing self-employment sector in the country, with an increase of more than 70 per cent over the past decade. However, very few of these new businesses experience the explosive growth of Extreme CCTV.

Jack Gin put a new twist on the surveillance camera – with remarkable results. While other cameras capture video pictures by "seeing" the visible light, Gin's cameras emit infrared light to allow them to "see" in the dark. Optimizing the latest camera sensor technologies and LED-type solid-state light sources, Gin and his tiny engineering team continuously honed what they call their "integrated day-night" technology. Compared to its competitors, Extreme CCTV cameras can penetrate the dark much further, while consuming less power. In essence, Gin's tinkering created a new way to see in the dark.

Gin and his wife did a lot of that kind of tinkering. Like so many owners of new businesses, the Gins worked long hours and late nights. They designed prototypes, studied markets, identified distributors, drafted business plans, made sales calls, travelled to tradeshows, and wrote press releases, spec sheets and brochures.

And the Gins recognized, as do many Canadian entrepreneurs, that the domestic market would never be big enough to make their business profitable. So from day one, Extreme CCTV exported to the United States – following in the footsteps of over 80 per cent of Canadian exporters. The Gins found the United States eager to embrace innovative products such as theirs. Today, →

"I spent four days there and sold less than $400. It was a lesson learned."

– Alex Philips
Mira Soapworks

→ 70 per cent of Extreme CCTV's sales originate from south of the border, with the balance coming from Canada, the United Kingdom, New Zealand, and Taiwan.

The international security community quickly took notice of Gin's products. The infrared beam was invisible to the naked eye, and the camera was the most rugged on the market. Major distributors took on Extreme's product line and helped spread the word. Soon, Extreme CCTV technology was adopted by the Secret Service, the Drug Enforcement Agency and several other government departments in the United States.

Extreme CCTV also benefitted from two big breaks in Hollywood. First, their technology was used to invisibly light the dark side of the famous "Hollywood" sign. Then television producers chose Extreme's cameras to record contestants during the night scenes on *Big Brother* and *Survivor II.*

Extreme has grown at a frenetic pace. In its first year of business the company grossed $41,000. The following year, sales jumped to $416,000, and subsequently hit almost $3 million in 2000. By 2001, Extreme reached the $5 million mark.

It is an exciting time for the Gins – and their 25 employees – as they wrestle with the challenges presented by explosive growth. Extreme CCTV recently purchased a complementary company, Derwent, in the United Kingdom. Gin describes Derwent as a "kissing cousin" because of its similarity in size and infrastructure. Derwent provides Extreme with an established operational base to launch its made-in-Canada products in the European market.

The Gins are doing all they can to handle what Jack refers to as "the pressure of everything." They firmly believe that success requires them to go all the way. "You can't sit on the fence," Gin says. His wife Sylvia has removed herself from day-to-day operations and now devotes her time to the children. Gin continues to work long days, but says he loves every minute.

Mira Soapworks *outsells* the competition

Like Jack Gin, Alex Philips of Mira Soapworks thrives on long days. Unlike Gin, however, Philips has always considered himself an entrepreneur.

Philips started his own business right out of school. At 22, he opened a mobile wash company – washing fleets of transport trucks and trailers, as well as heavy equipment from local steel mills and coal mines. At 26, he started up a vending machine business. This proved to be so successful that he kept at it for 15 years. Along the way, he also owned and operated a restaurant for a few years.

His current enterprise grew out of a family hobby. Philips and his wife, Sharon MacRury, lived a pastoral, mortgage-free life on a goat farm in Marion Bridge, Nova Scotia. A neighbour suggested that MacRury make soap from goat's milk and offered her a recipe – an all-natural combination of milk, coconut and rapeseed oils, and other plant extracts.

MacRury's brother suffered from a skin condition and was amazed at how the soap quieted his itching. For Philips however, it stirred up an itch of another kind – his entrepreneurial itch.

Philips set out to establish a market for the soap. He pledged to devote two years to the venture; if he couldn't succeed in that time, he would give it up. But until then, he promised to "hustle, hustle, hustle."

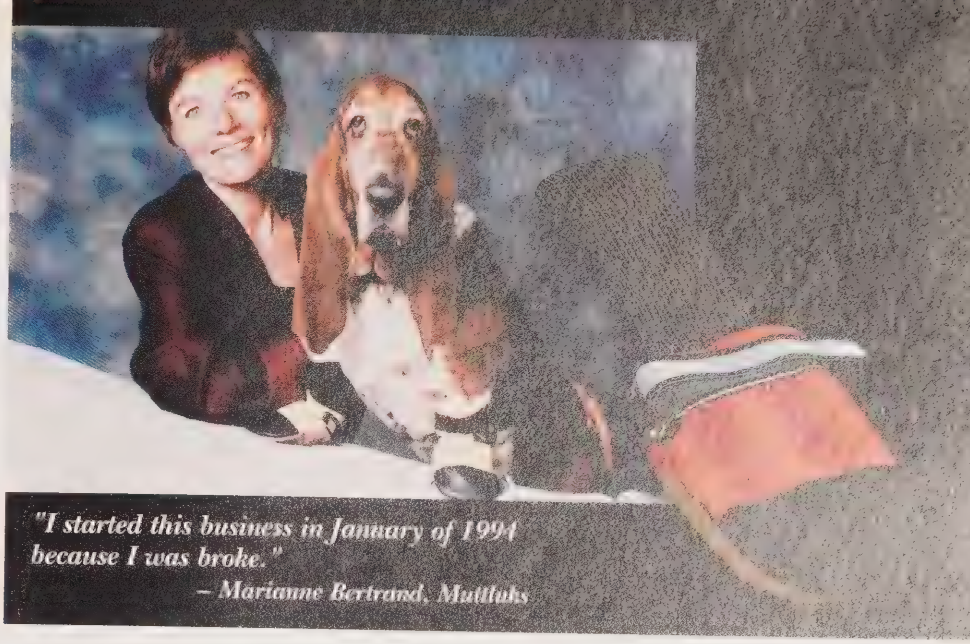
Philips conducted some initial research and discovered that all-natural soaps could, in fact, relieve the symptoms of a variety of skin conditions such as psoriasis, eczema and acne. He also learned that up to 20 per cent of the population suffered from these conditions. His entrepreneurial mind immediately started doing the math. "Twenty per cent of the population in Canada is six million potential customers," he recalls saying to himself, "and in the United States, there are 60 million potential customers."

His first foray into the retail market consisted of a kiosk in a Halifax shopping centre on a Mother's Day weekend. "It was a dismal failure," he remembers. "I spent four days there and sold less than $400." He considered it a lesson learned though, and repackaged his product for the upscale gift-shop market. It worked – and sales started to trickle in.

Philips soon found that he could outsell the competition by moving into the trade -show circuit. In the past year, he has been to countless shows all over North America, the Caribbean and Europe. The focused atmosphere of trade shows often generates orders of a million bars or more. But with five employees and a modest production facility on the farm, Mira Soapworks can only produce 1,000 bars a day. Philips finds it frustrating. "It's like having a photocopy of a lottery ticket that you bought," he says. "You can see that you've won, but you can't cash it in yet."

Philips hopes a larger facility will help Mira Soapworks cash in that winning ticket. Construction is now under way for a new plant in Sydney – some 20 minutes from the farm – which will accommodate at least 30 employees. Once the plant is up and running, Philips expects annual sales to hit $3 million, with 75 per cent destined for the United States and Europe. Less than two years ago, sales were just $75,000. And while this jump may sound dramatic, Philips claims he and his wife are actually taking a slow, deliberate approach to building the company, in order to ensure long-term success. "Sales could have been $20-25 million a year based on the commitments buyers were making," he says, "but we felt that was just too much growth too fast."

Mira Soapworks recently pioneered a way to make liquid soap from goat's milk – a discovery which should propel the company even further. It seems as if their hobby-turned-business will keep Philips and MacRury busy for years to come.



"I started this business in January of 1994 because I was broke."
– Marianne Bertrand, Muttluks

Muttluks *outsmarts* the competition

Marianne Bertrand of Muttluks is another self-described "born entrepreneur." In her high-school days, she developed a knack for finding markets for just about anything. Take those long-forgotten macramé plant holders, for instance – she made them herself, then sold them to local retailers. "A lot of people have good ideas," claims Bertrand, "but entrepreneurs take those ideas and actually do something with them. Most people are not willing to leave their nine-to-five jobs and step into the unknown."

In Bertrand's case, she felt she had no choice but to take that step. "I started this business in January of 1994 because I was broke. I had a $1,200 mortgage payment due, and only $700 in the bank," she recalls.

Then an inspiration hit Bertrand: "I had been given a set of dog boots the year before, and to please my other two dogs, I had designed and sewn two additional sets. My neighbours were impressed with my boots and kept asking me where they could buy some for their dogs. It was -30°C outside – even Lake Ontario was frozen over that year." The terribly cold weather was the impetus Bertrand needed; she withdrew $650 from her bank account and bought supplies to make dog boots.

Bertrand worked gruelling hours for the next 10 days, making patterns, cutting fabric and sewing dog boots. "I made 54 sets of dog boots and hit the streets. The first store I visited bought 48 sets!" remembers Bertrand. In no time, she had sold over 130 sets and made $2,000 over and above the initial $650 investment in supplies.

After the initial frenzy, Bertrand set about designing the best dog boot possible to outsmart her competition. "I knew my dog boots were better than any on the market, but I also knew I needed to improve them even more," she reflects.

Bertrand discovered that pet stores had long considered dog boots a headache. "The running joke was that for every 10 you sold, you'd have 11 returns," she recalls, "but demand was strong; consumers wanted a good pair of dog boots. That's the trick to business – find a problem that isn't being met and jump in with a solution."

Her research revealed that most dog boots fit poorly and wear out quickly, so she designed boots that solved both problems. "That's how I've stayed a leader: by constantly improving my product," she says. "Mine are the 'Mercedes of dog boots' according to consumer reports."

Today, Muttluks' reputation reigns across North America, with 75 per cent of sales originating from the United States. Muttluks remains a small operation, with 12 employees and annual sales of just under $1 million, but it's a perfect fit for Bertrand.

Bertrand, and thousands of other Canadian entrepreneurs just like her, credit their export capacity for enabling them to build up their businesses. As these men and women attest, the domestic market may often be closer and more secure, but the international market offers almost unlimited potential. To realize that potential, however, you have to outwork the competition. ■

Extreme CCTV
Location: Burnaby, British Columbia
Business: high-tech security cameras
Annual sales: $4.4 million
Number of employees: 25
EDC relationship: Global Comprehensive Insurance (see p.24)
Contact: www.extremecctv.com

Mira Soapworks
Location: Marion Bridge, Nova Scotia
Business: goat's milk bath products
Annual sales: $200,000
Number of employees: 5
EDC relationship: Export Credit Insurance (see p.24)
Contact: www.mirasoapworks.com

Muttluks
Location: Toronto, Ontario
Business: high quality dog boots
Annual sales: under $1 million
Number of employees: 12
EDC relationship: Export Credit Insurance (see p.24)
Contact: www.muttluks.com

Great Deeds Wrought

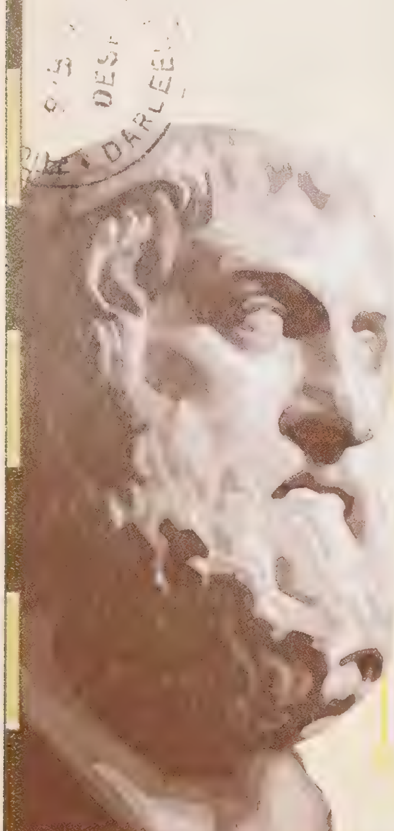
Herodotus – hailed by many historians as the father of their discipline – once proclaimed: "Great deeds are usually wrought at great risk."

And while it is unlikely that Herodotus was referring to the inherent risk involved in dealing with foreign markets, his musing nevertheless sums up the nature of the export game: high risk for high reward.

If Herodotus were alive today, he may well have considered turning his passion for history into a full-fledged business. With his competitive advantage in historical knowledge, he could corner a niche market by publishing history books.

By exploring international markets, his niche business could attract more customers. And by turning to EDC, he could minimize his export risks.

Let's follow the journey of Herodotus (or Harry as his friends call him) along the road to exporting, beginning with his first deal – an order for 100,000 books from Bob's Books in the United States.



Export Check

Not knowing much about the reputation of Bob's Books, Harry's buddy Joan of Arc advises him to consult EDC's Export Check (see p.23) before moving ahead with the transaction. Joan, being no stranger to risk, knows that Export Check will allow Harry to tap into on-line Dun & Bradstreet Business Information Reports and assess EDC's willingness to insure him for the amount of the transaction.

So, after checking out Bob's track record at www.edc.ca, Harry was ready to ship the 100,000 books to Bob.

Credit Insurance

Even though Harry was confident that Bob would pay for the order, he reads a forecast by Nostradamus in the newspaper warning that buyer non-payment could be on the horizon. Harry quickly realizes that one payment default could land his business in bankruptcy, so he decides to get EDC Credit Insurance to cover up to 90 per cent of his losses should Bob not pay.

Luckily, the transaction goes off without a hitch!

are Usually
at Great Risk

– Herodotus, circa 400 B.C.

By Shawn Dalrymple

Performance Security Insurance

After this first successful business dealing, Bob decides to order an additional one million history books from Harry. This time, however, Bob asks Harry to provide a performance bond to ensure that the books will be delivered on time. Harry brings his EDC Performance Security Insurance policy to his bank, which in turn posts the bond for Bob's Books.

Remembering Nostradamus' words, Harry also gets EDC Credit Insurance for this transaction – better safe than sorry!

Extra Financing

To meet the printing costs for this large order, Harry finds that he needs additional working capital. An acquaintance and fellow risk-taker, Christopher Columbus, advises Harry to sell some of his accounts receivable, protected under his EDC Credit Insurance Policy, to his bank in order to increase his liquidity and free up some cash…fast!

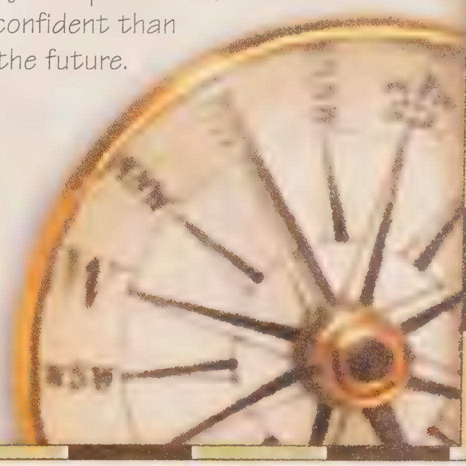
Harry now has the money he needs to fill the order for one million books.

Buyer Financing

The next time Bob contacts Harry, he explains that Bob's Books wants to start printing some rare editions of their own. Bob asks Harry to provide an estimate for printing machinery and to include some financing options in the estimate. Harry's good friends the Wright brothers mention that EDC's partner Northstar helps small- and medium-sized businesses offer competitive buyer financing packages. After waiting several weeks, Harry receives a call from Bob awarding him with the contract. Northstar will pay Harry when he ships the machinery and then it will be repaid by Bob over three years.

With these deals under his belt, Harry has successfully avoided many of the pitfalls and is on the road to export success. And with EDC's variety of export tools, he feels more confident than ever about the future.

EDC offers many more services to Canadian exporters that are not mentioned here. For a full listing of EDC products and services, see page 24. If you would like to speak to one of the members of EDC's small business team, call 1-800-850-9626.



CFIB: *A Big Voice for Small Business*

The Canadian Federation of Independent Business (CFIB) is a non-partisan, non-profit organization that represents the interests of over 102,000 Canadian business owners. Here, *ExportWise* discusses the role of CFIB and its relationship with Canadian organizations, with Garth Whyte, Senior Vice-President for National Affairs.

ExportWise (EW): Why is CFIB an important Canadian organization?
Garth Whyte (GW): Most Canadian companies are SMEs – in fact, over 78 per cent of businesses in Canada employ less than five people, and only 2.8 per cent have more than 50 employees. Their voices are often overlooked despite the fact that they represent such a large proportion of businesses in this country.

EW: Exactly how do you make sure everyone has a voice?
GW: Every single one of our members, whether they have one employee or 60, gets one vote on every policy position we take. We feel that this is extremely effective and allows for the highest degree of satisfaction with our decisions. With over 100,000 members, we cannot always please everyone, but we feel strongly that we are effectively monitoring the pulse of the Canadian small business community.

EW: What methods do you use to gauge the needs of small businesses?
GW: CFIB does 3,500 personal small business visits per week, which allows us to have a good read on the economy. Small business owners are like the canaries of the economy, and we know what their interests are.

EW: Do you also employ other tools, such as surveys?
GW: Surveys are indeed another very critical tool, and for this reason we survey our members on a ongoing basis. These surveys provide insight into: the optimism, or lack thereof, that Canadian SMEs may hold about the coming year; the importance of e-commerce and technology to small firms; SME impressions of government programs and taxation; and a wide variety of other issues. This year, we presented the results of our survey to Bank of Canada Governor David Dodge, with the firm belief that these results should help shape their policy decisions.

EW: Can you tell us a little bit about some of the survey results?
GW: The survey indicated that overall, Canadian SME owners were optimistic about the year ahead of them, both in terms of the economy and the well-being of their company. It also assisted in pinpointing some of the problematic areas affecting SMEs. The four main areas that trouble these companies are taxation, government debt, government regulation and paper burden, and employment insurance.

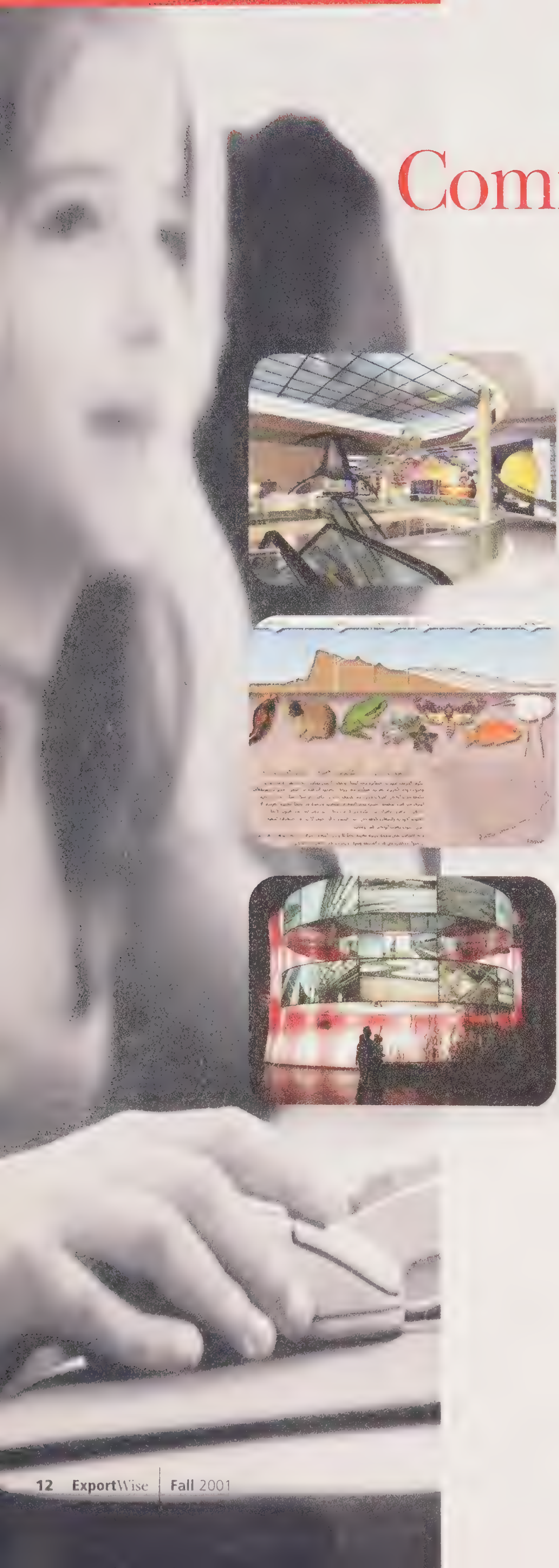
Large corporations and governments often ask us how to market and pass information on to small firms. Our research indicates that these firms often turn to sources other than government to get information, such as lawyers and accountants, peers, industry associations, and the internet. Even though government offers important initiatives that may save businesses time and money, they are often overlooked. This type of information is critical to policy-makers in order to ensure that change can be brought forward... positive change.

For more information on the Canadian Federation of Independent Business, and their annual SME survey, visit www.cfib.ca.

Having recently returned to the Nation's capital to set-up the CFIB Ottawa office, Garth Whyte is currently Senior Vice-President for National Affairs. Previously, he held positions with the CFIB as Director of Provincial Affairs for Saskatchewan and Manitoba, and Vice-President National Affairs and Research.

Mark your Calendar for these Small Business Events

Event	Date	Info	Locations
Business to Business Expo	October 18, 2001	www.halifaxchamber.com	Halifax, NS
Business Development Bank Small Business Week 2001	October 21-27, 2001	1-888-INFO-BDC or www.bdc.ca	Across Canada
Edmonton Small Business Conference and Info-Fair	November 17, 2001	Beverley Grenier at 780-495-4165 or http://business-infofairs.ic.gc.ca	Edmonton, AB
InReach: Rendez-vous 2001 Small Business Showcase	November 19-22, 2001	Noreen Gallagher at 780-495-6434 or www.wd.gc.ca	Edmonton, AB
Small Business Information Expo (SBIE)	November 23-25, 2001	www.smallbusinesscanada.ca	Mississauga, ON
Le Mondial de l'entreprenariat	Fall 2002	France Charlesbois at 613-789-4133 or www.lemondial.org	Ottawa, ON
Le Monde des Affaires	2002	514-288-3931 or www.martin-intl.com	Montreal, QC
Forum for International Trade Training (FITT) Conference	2002	1-800-561-FITT or www.fitt.ca	Ottawa, ON



Lunny Communications Group

Making Facts More Thrilling Than Fiction

Perhaps more students would call history their favourite subject if their teachers organized field trips to exhibits created by Lunny Communications Group. The company uses interactive multimedia and technology to bring educational material to life, proving that learning can be fun.

By Lauren Klump

The Vancouver-based Lunny Communications Group is engaging audiences around the globe – from a fighter pilot simulator in the Singapore Discovery Centre to multiple-screen film presentations for the Expo 1998 Olympic Pavilion in Lisbon.

"Film, new media and computers can do much more than simply entertain people…these tools can teach all kinds of subjects in exciting ways," says Shane Lunny, founder and President. "I've always been interested in history, science and what has shaped the world around us. This is thrilling, wonderful information that's often presented in a boring and tired way. We take facts out of dusty, old cases and enliven them for our generation."

Lunny Communications recently took on its largest project ever – the electronic media production for Saudi Arabia's Sultan Bin Abdulaziz Science and Technology Centre. Slated to open in November 2002, the building will include hands-on exhibits as well as a library and educational facilities.

The company is pleased to augment its presence in Saudia Arabia, which was first established in 1999. Lunny erected displays in the King Abdulaziz Historical Centre, the largest museum in the Arab world. They created "visitor experiences" that convey significant aspects of Saudi Arabian history, including audio-video programs, a timeline photo wall and computer-generated archaeological exhibits.

"Winning this second Saudi Arabian bid created an interesting position for us," says Lunny. "Many people consider Saudi Arabia to be the anchor of the Middle East and the Arab world. We're pleased to have achieved such success against sophisticated, global competitors, showing we're truly a world-class operation."

EDC played a pivotal role in helping the company enter foreign markets by providing Performance Security Guarantees and Specific Transaction Insurance (see p.24). "EDC made deals come through for us…they are by far the best route when doing business internationally," stresses Lunny. He also credits Van City Capital and Toronto-Dominion Bank, who provided financing, for his success abroad.

Although he's undertaken projects around the world, Shane Lunny looks forward to building their domestic presence as well. "We've gained global recognition and it's now our intention to position ourselves as Canada's leader in terms of new media, distance education and themed attractions," states Lunny. He's already taken steps to entrench his business in his home country. Last year, in co-operation with the federal government, his business completed the nation's largest electronic learning initiative, a bilingual series of career projects, internet sites and CD-ROMS. The program was delivered in schools and libraries across Canada and focused on the software, bio-tech and cultural industries.

Lunny Communications, however, doesn't plan to stop pursuing business abroad. "The key to our continued growth is definitely the international market," says Lunny, who anticipates further dealings with EDC. "EDC's help has been key to our development, and we see our relationship growing along with our enterprise."

Jim Wood, an EDC underwriter who has dealt with Lunny Communications' various contracts, also foresees future transactions with the group. "Although the initial Saudi Arabian deal represented a large risk, Lunny's past performance made us comfortable accepting it," says Wood. "The company's solid track record means a lot to EDC. We're hopeful to do more business with them, since their contracts have a considerable positive impact on Canada's economy. It's a win-win situation for EDC and the private sector." ■

Profile

Business: Interactive multimedia educational tools
Number of employees: 30
Export markets: Germany, Saudi Arabia, Singapore, Portugal, Australia, Japan, U.S.
EDC relationship: Specific Transaction Insurance and Performance Security Guarantees (see p.24)
Contact: www.lunny.com

Behind the Scenes of Trade Policy

By John M. Curtis

Recently off the press is a volume of 12 topical essays entitled *Trade Policy Research 2001*. This unprecedented publication sheds light on the technical deliberations being held in the aftermath of the abortive 1999 Seattle WTO Ministerial.

The essays cover a range of subjects – some controversial, some less so. As a whole, the collection offers a look into the debate about the analysis and evidence that informs policy, and at the issues policy-makers are increasingly having to address. With this publication, the Government of Canada aims to raise public understanding of, and interest in, Canadian trade policy. After all, an informed debate on trade issues is in everyone's interests.

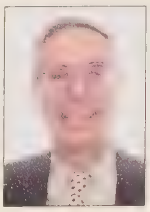
One essay offers a summary of the wide-ranging international colloquium on the state of the trade system following the failed 1999 Seattle meeting. It concludes that while the "Battle of Seattle" does not signal the end of the international trade system, it was an historic event and will influence the form of trade policy discussions from now on.

The impact of trade liberalization on broader social, environmental, economic, and political issues is discussed in a separate paper. This paper suggests that perhaps too many subjects were incorporated into the international trade machinery during the particularly active trade negotiation period of the 1990s, especially intellectual property rights. The argument is made that while public policy issues such as the environment, labour rights and standards, exchange rates, and human rights all have trade implications, there is a strong case for these issues to be handled primarily and separately by other international organizations, not in the World Trade Organization (WTO).

These broader issues, however, have captured the most media attention, and are central to the role of non-governmental organizations (NGOs). NGOs have an important role to play in trade policy development, particularly in bringing their subject matter expertise to the table. On the other hand, involving NGOs poses a large distraction at the political level. Tackling this, one paper focuses on how to involve NGOs most effectively and appropriately in government-to-government negotiations.

It is accepted that trade expansion is part of economic development; there is a strong positive relationship between growth in GDP and growth in income of the poorest. But this collection points out that trade is a necessary – but not sufficient – contribution for the reduction of poverty. A better case, then, for further trade liberalization will have to be made by those in government, the private sector and others who support such liberalization.

Should you be interested in a behind the scenes look at trade policy analysis and development, consider *Trade Policy Research 2001*, available at www.dfait-maeci.gc.ca/eet/TPR_2001-e.asp. ■



John Curtis is a Senior Policy Advisor and Co-ordinator in the Trade and Economic Analysis Division of the Department of Foreign Affairs and International Trade. He can be reached at john.curtis@dfait-maeci.gc.ca.

The views expressed here are those of the author and are not necessarily held by EDC.

Weathering the **Tech Wreck**

By Claudia Verno

Did we throw out our old economic textbooks too soon in our zeal for the "new economy"? What once propelled U.S. growth at enormous speed – productivity-enhancing capital investment, especially information technology – now appears to be its main drag. Markets are now turning to old economy fundamentals in the hopes of projecting how the U.S. economy will weather the tech wreck.

Capping off half a century of global economic pre-eminence, the U.S. economy has performed spectacularly during the past decade. The last nine years have borne witness to the longest peacetime expansion in U.S. history, characterized by strong economic growth, rising productivity and profits, as well as low inflation and unemployment.

This unparalleled economic boom has been interpreted as the result of massive technological development, resulting in a significant enhancement in U.S. productivity growth. The term "new economy" was born, with some economists claiming that the information technology (IT) revolution had forever shattered the old economic paradigm and could promise to deliver uninterrupted growth. →

The new economy: hindsight is 20-20

The new economy, however, has faltered, if only temporarily. Involving much more than the high-tech sectors, this new economy is the systematic application of recent technological innovations – especially information technologies – to all sectors of the economy, improving efficiency in the production of goods and services.

A number of developments helped the new economy spread its wings in the United States.

First, the trend towards globalization and trade liberalization spurred competition amongst companies, obliging them to invest in IT to become more productive.

Second, the 1996 Telecom Act deregulated the U.S. telecommunications industry, which attracted a swath of upstart telecom carriers. By the end of 2000, there were over 700 long-distance telecommunications service providers in the U.S. market, all competing for a place in the sun. In order to survive the ensuing price war, these companies went on a capital spending binge to outperform their competitors.

Third, the internet boom generated steady demand for new equipment, capable of providing high-speed access and the higher bandwidth necessary to handle high volume data transmission. Having the right equipment was no longer a question of increased profitability, but of competitive necessity.

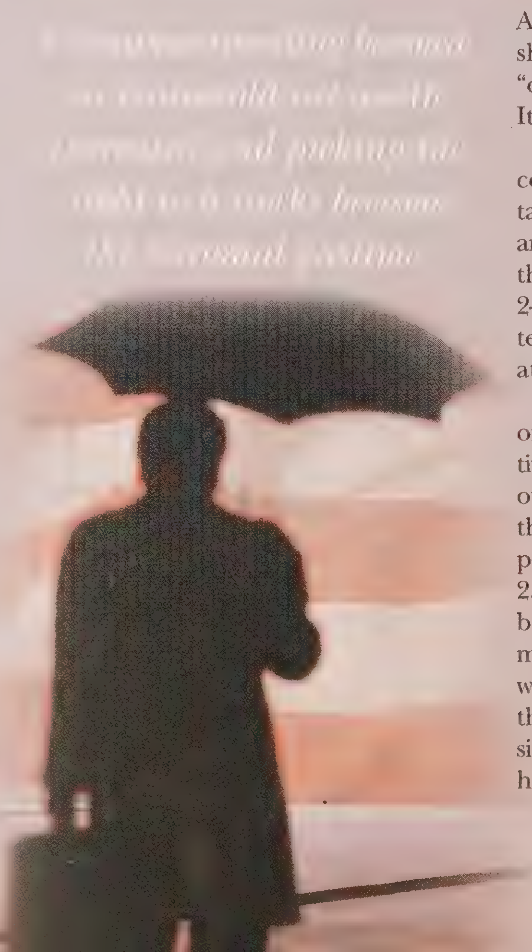
Finally, equipment providers – especially the big ones such as Nortel, Cisco, and Lucent – found themselves in a survival quest for the most leading-edge technology. This quest encouraged a very predatory stance vis-à-vis smaller start-ups with larger companies using acquisition as a competitive strategy.

The 1996-1999 acquisition wave was financed by over-bullish stock markets that were more than willing to pour money into a sector whose prospects seemed boundless, regardless of immediate profitability. And the more the money flowed in, the more the stock values of high-tech equipment manufacturers soared, and the easier it became for them to increase market capitalization. The end result was predictable: in only four years, the Nasdaq had soared 284 per cent, creating a classic technological bubble, similar to those provoked by the introduction of such revolutionary inventions as electricity and the railroad, which today are mainstays of the old economy.

Rising stock and bond prices did not only benefit their issuers – the economy as a whole prospered from them. Following the market upswing, consumer spending boomed as household net worth increased and picking the right tech stocks became the national pastime. Thanks to skyrocketing demand, companies expanded their operations, increasing investment and their demand for labour. With U.S. unemployment dropping to a 30-year low in 1999, and production costs rising, companies in all industries were spurred to invest in productivity-enhancing equipment in order to preserve their profits, since tough price competition did not allow them to pass higher costs on to consumers. Thus, the high growth in capital investment did not only come from the high-tech sectors, but from the broader economy as well.

The appetite of the U.S. economy seemed insatiable. Both imports and the U.S. current account deficit rose impressively, in part thanks also to a high-flying U.S. dollar that appreciated 20.5 per cent versus most other currencies between February 1996 and November 2000. During the past five years, Canadian exporters saw their U.S.-bound sales rise an average of 11.5 per cent, with gains in all sectors, especially in the automotive, telecommunication, computer and transportation sectors.

With accelerating growth, surging stock markets, tight labour conditions and soaring energy prices, the risk of overheating became imminent. Between June 1999 and May 2000, the U.S. Federal Reserve Board gradually raised key trend-setting interest rates 175 basis points to 6.5 per cent in an attempt to cool what was perceived to be a red-hot economy. Indeed, at that time official figures were indicating that growth for 2000 had accelerated to 5 per cent from 4.1 per cent in 1999, which was already high by American standards. Later revisions showed that the economy had again "only" expanded 4.1 per cent that year. It was nonetheless a brisk pace.



But when the economy did finally cool, it was much too fast for the Fed's taste. Indeed, monetary tightening and rising oil prices should have slowed the economy to a more sustainable 2-3 per cent pace, but the collapse of the technology bubble made the deceleration much more abrupt.

Although the telecom sector's share of U.S. gross domestic product is relatively small (only 1.4 per cent), the fallout was enormous. In fact, it is estimated that the plunge in telecom stocks and profits has been responsible for almost 25 per cent of the economic slowdown begun since the middle of 2000. The multiplier effect that had created the widespread virtuous circle of growth since the mid-'90s now worked in the opposite direction, as the tech wreck wreaked havoc throughout the economy.

I.D. #

(as it appears in upper left corner of your mailing label)

Add **Delete**

Name

Title

Company

Telephone/e-mail

Address

Change *(new address to be printed above, former address below)*

Name

Title

Company

Telephone/e-mail

Address

Demographic information

Language preference

EN English FR French

You are... *(choose one)*

C1 An EDC customer
C2 An educator/student
C3 A government official
C4 A potential EDC customer
C5 Other:

You are... *(choose one)*

E1 Currently exporting
E2 Not applicable
E3 Considering exporting

Export volume *(choose one)*

V1 Less than $1 million
V2 $1 million to $5 million
V3 More than $5 million
V4 Not applicable

Principal product or service?

CANADA POST POSTES CANADA

Postage paid if mailed in Canada
Business Reply Mail

Port payé si posté au Canada
Correspondance-réponse d'affaires

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MDS MACFARLANE DATA & MAILING SVS.
2750 SHEFFIELD RD UNIT 1
OTTAWA ON K1B 9Z9

Bankruptcies and surging debt dried up credit for telecom carriers, which forced them to slash spending on equipment. Given the expected slowdown in demand, companies across all sectors became more prudent, delaying their expansionary projects. Growth of non-residential gross private investment fell from a high of 15.8 per cent (annual rate) in the first quarter of 2000 to -14.6 per cent in the second quarter of 2001, mostly as a result of falling investment in IT products and other capital goods. The U.S. manufacturing sector started to scale back production by late 2000 after faltering capital equipment demand began to weigh on companies' stockpiles, which had by then grown much too rapidly. The cuts in production started in the automotive industry but the telecom sector soon followed suit.

What now?

The United States has just finished its third quarter of slowing growth, reaching only 0.2 per cent (annualized) in Q2 2001. Demand for capital equipment remains in free fall, despite remarkably rapid monetary policy easing by the Fed (-300 basis points from January to August of this year). The U.S. manufacturing sector remains mired in recession, and not much help can be expected from the external sector, either.

Now that the American engine of global growth is beginning to sputter, economic activity in the rest of the world has slowed noticeably. Although Canada has so far managed to stave off the worst effects of the U.S. downturn, its manufacturing sector is definitely suffering. Mexico has entered its second quarter of negative growth, and Asia has been particularly badly hit, since its largely export-oriented economies are big suppliers of the U.S. IT sector. Europe looks set for an extended period of lacklustre growth and Japan is now entering its fourth recession in a decade. And an overvalued U.S. dollar certainly isn't helping the situation.

Fortunately, though, the American consumer remains buoyant. In fact, although the tech wreck alone shaved off almost US $2 trillion in stock market wealth, household confidence has managed to remain relatively high. Because consumers typically only spend three to five cents out of every dollar on capital gains, total spending has not suffered markedly from falling stock markets.

Furthermore, U.S. labour markets still remain relatively tight. Indeed, despite recurrent announcements of layoffs, only 33,000 jobs have been lost (up to July 2001) since the telecom meltdown, which leaves the unemployment rate still very low in historical terms. And the fact that real wages haven't stopped rising is further indication of healthy labour market conditions. Moreover, cheap credit and soaring real estate values continue to fuel steady final demand.

Although the supply-side of the U.S. economy remains weak, there are some positive signs. One of the major indicators that things are looking up is that the inventory correction process is well under way. With final demand remaining solid, stockpiles cannot fall much further before manufacturers resume operations. Already, thanks to →

(continued on p.18)

Think Your U.S. Sales are Safe?

By Brenda Brown

Many exporters believe that sales to U.S. customers are risk-free. The reality is that the risk of non-payment by buyers south of the border is just as great as non-payment by overseas buyers. It should come as no surprise then that $28 million of our $83.9 million in claims paid out in 2000 were U.S. related.

Beware of bust-outs and other scams

Scams where a company places a large order and skips town, have hit industries from computer parts to textiles. What is alarming is that the scam operators are becoming more sophisticated and organized. EDC is well positioned to track credit trends and spot red flags. In some cases, we have been able to alert customers before the downfall. If you get caught in a fraud situation, our Credit Insurance (see p.24) – covering up to 90 per cent of your loss – can mean all the difference.

Claims and other tales from the crypt

Wedding dresses, a 43-foot sail boat and 3,600 bottles of ginseng-flavoured brandy are just some of the more bizarre items we've taken ownership of when a buyer refuses to, or can't, pay. In each of these cases, the stock was sold to recover money paid out in claims.

Did you know...

→ There is a 92 per cent recovery success rate if the debt is less than 30 days old. After 24 months, that rate drops to a mere 10 per cent. The sooner you get EDC involved, the better the chances of full debt recovery.

→ Your credit insurance policy with EDC is no longer valid if you keep shipping to a company that is already 90 days overdue in paying. At that point, we start to exclude those invoices. ■

→ stronger-than-expected sales, the automotive industry is on the rebound, with output rising 5.6 per cent in Q2 after hefty cuts in the two preceding quarters.

The U.S. economy over-invested in information technology, and the correction is depressing the entire economy. However, the old economy still has a lot of life left in it. We forecast modest growth of 1.8 per cent in 2001; but we expect economic activity to rebound towards the end of this year or in the beginning of 2002, displaying a "lazy U" trajectory. Consumption should maintain its strength throughout the year, supported by accommodating fiscal and monetary policies that will eventually stimulate the supply-side of the economy once excess capacity has been corrected. Growth in the United States of about 2.6 per cent in 2002 will also boost momentum throughout the rest of the world. Furthermore, U.S. fundamentals, which will have been purged of the bubble-like tech excesses of the late'90s and 2000, will also be on a more robust footing, pointing the way towards sustained growth.

From the perspective of Canadian exporters, growth in shipments to the United States, especially in manufacturing, will go through somewhat of a lull this year, as American demand for imports slackens. This will at least be partially offset by a subdued Canadian dollar, which is expected to stay below the 70 cents U.S. range for the rest of the year. Exports of consumer goods and energy products, however, should remain robust. In 2002, we expect the situation will improve as the United States economy weathers the tech wreck and brightens steadily. ■

Claudia Verno is an EDC economist and can be reached at cverno@edc-see.ca.

10 TIPS FOR BETTER BORDER BUSINESS

1. Establish a U.S. business presence.
Most American businesses and consumers love to buy foreign goods and services. However, they much prefer to deal with suppliers who can communicate and deliver on "domestic" terms. By having a U.S. mailing and delivery address and a U.S. phone and fax number, you can position yourself on a level playing field with your U.S.-based competitors.

2. Learn the tax benefits of forming the correct corporate structure of your U.S. business.
There are adverse tax ramifications for Canadians who choose "limited liability company" (LLC) instead of a corporation when operating a U.S. entity.

3. Know your advisor's credentials.
For example, make sure your immigration advisor is a licensed U.S. attorney. U.S. law bars immigration consultants and foreign attorneys from advising or presenting your case to U.S. immigration authorities.

4. Acquire PACE and CANPASS authorization.
Use these dedicated lanes to avoid unpredictable border lineups, thus maximizing your time for business.

5. Realize the benefits of a properly structured corporation.
There are significant hazards to the "do-it-yourself" approach. Long term, it's well worth investing in experienced legal counsel.

6. Respect the job of U.S. border officials.
The United States is very pro-business and pro-trade. Most border officials are anxious to help businesses. However, at the northern border crossings there is chronic under-funding and under-staffing. It's not their fault – help them do their difficult job by being prepared, honest and courteous.

7. Plan ahead.
The lucrative U.S. market is attracting many Canadian entrepreneurs bidding on U.S. projects. Because the U.S. market is hot, it may be challenging to find qualified tradespersons for projects in certain parts of the United States.

8. Avoid the loss of work permits or visas.
Unless you are a U.S. citizen or have a "green card", your U.S. work authorization could be revoked or denied renewal if you fail to observe limitations that may apply to lawful activities that you may undertake while in the United States. Know these limitations and follow them!

9. Warehouse and distribute from the United States.
Your U.S. warehouse may be real or virtual, but either way it will pay dividends in cost savings, response, certainty and control. Plan ahead to anticipate storage or trade show booths, U.S. purchase of collateral materials, and for returns and repairs. Avoid headaches by shipping your products, literature and other material directly through your nearest U.S. port of entry.

10. Don't assume that Canadian business practices apply in the United States.
And don't assume you know how to get people or goods through the border. Though it seems logical, it isn't necessarily true. Do your research!

Tips reprinted courtesy of: Jim Pettinger, President of International Market Access, Inc., a Bellingham, Washington-based warehousing and fulfillment company.

Fox Speaks Out on Democracy, Transparency and Trade

Thinking of exporting to Mexico? Then here are some thoughts about the country's economic and political developments, conducive to global trade and investment, from the man at the helm – President Vicente Fox.

By Toby Herscovitch

President Fox walks into the room, a head above most of the crowd, nodding and exchanging a few words with those gathered. The Mexican leader's time is highly scheduled during his recent visit to Canada, yet he looks relaxed and is comfortably in charge. Alternately taking questions from Latin American and Canadian journalists, he switches easily from Spanish to English, reflecting his close contacts with the United States as the former President of Coca-Cola in Mexico. *ExportWise* recently attended a presentation and press conference by President Fox on the theme of free trade in the Americas. What follows are some of his views:

On transparency

"We are committed to open and transparent performance, to the strengthening of the republican institutions our Constitution has established, and to consolidation of the rule of law as the currency of a plural, free and just nation. In our democratic efforts, the citizen ranks as the highest authority. Now we must further develop our practices and strengthen our democratic institutions."

On democracy

"I am convinced that democracy will contribute to closing the gap between those who have much and those who have little. In Mexico's case, we must allow ourselves to address a major pending challenge: eradicating the marginalization and the enormous inequality that still condemns millions of Mexicans to a life of poverty and limitations.

Aside from its own importance, democracy brings with it political stability…and the rule of law, which encourage economic and social development and promote closer exchanges with other nations and governments."

On sustainable development

"I am convinced that it is impossible to attain sustainable development on the basis of authoritarianism and corruption. An authoritarian regime…is actually weak because it is subject to the arbitrary decisions of only a few. This lack of clear and stable regulations hinders productive activities."

On the global economy

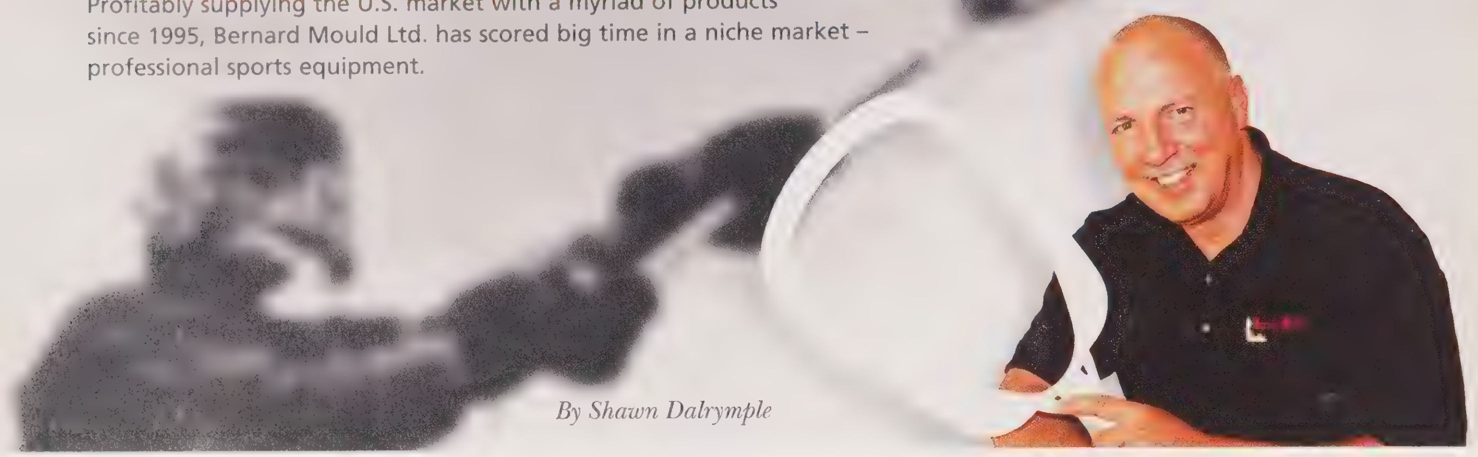
"Today we are one of the world's most open markets. Our economy is now more stable than ever. Discipline in public finances has enabled us to reduce inflation; we have done away with the foreign-exchange crises that characterized periods of change of public administration and we have managed to make international markets recognize the soundness of our economy."

On doing business with Mexico

"Mexico is a good place to do business both because of the opportunities that it offers for profitable trade and investment and because of the ethical vision that now characterizes its promotion of development. That is why I believe that those who choose to do business in Mexico should feel confident that their decision will result not only in returns for investors, but also in economic and social benefits for the country." ■

Bernard Scores Big Time

Profitably supplying the U.S. market with a myriad of products since 1995, Bernard Mould Ltd. has scored big time in a niche market – professional sports equipment.



By Shawn Dalrymple

Nestled in the small town of Oldcastle, Ontario is an innovative force in the Canadian mould industry. Bernard Mould Ltd.'s 50-employee, 15,000 square-foot facility is equipped with a state-of-the-art design and engineering department, spawning an impressive array of specialized products.

These products can be found inside, outside, and under the hoods of automobiles everywhere as well as in homes, on toy shelves, on hydro poles and even in the Smithsonian Institute. Products are being launched into markets near and far – from as close as our American and Mexican neighbours to overseas markets in Malaysia and Taiwan, to the far reaches of outer space, on parts produced for NASA.

More recently, however, Bernard Mould has developed a reputation as a sports pro with its revolutionary lacrosse sports equipment. Bernard designs and engineers, researches and develops, prototypes, and produces tooled helmets for Stryke Lacrosse. And it also supplies "player-design assisted" lacrosse heads (the head is the part of the lacrosse stick used to shoot and pass the ball) to Warrior Lacrosse, today's fastest growing leader in American and Canadian lacrosse equipment.

The American Men's Lacrosse squad – the team that defeated Canada in overtime at the 1998 World Lacrosse Championships – was equipped exclusively with Warrior heads manufactured by Bernard Mould. Ed Bernard, President of Bernard Mould, does not claim that these heads were the main factor in Team USA's success. But, just in case, he has supplied 60 sticks to the Canadian squad that will participate in the 2002 World Lacrosse Championships in Australia.

Bernard Mould's reputation stems from the tangible and noteworthy enhancements found in its quality products. The "Big Nasty," for example, is a revolutionary stick design because its goalie head provides extra net coverage and increased head stability. The Big Nasty design involves over 1,600 surfaces, wholly developed using the computer-aided design software CadKey (for which Bernard Mould holds the distinction of being an Alpha/Beta source). Further, the Big Nasty was conceived with the assistance of star-goaltender Sal LoCascio.

"The Big Nasty was very controversial when it was released because no one had ever created a head that fully utilized all the space allowed by the NCAA (the USA's National Collegiate Athletic Association) or the OLA (Ontario Lacrosse Association)," says Bernard. "Our engineering group did, and despite the belief that the stick gave an unfair and illegal advantage over existing designs, the head was found to be fully compliant by both governing bodies."

With lacrosse gaining worldwide popularity again – lacrosse was once an Olympic sport and is still Canada's only official sport – Bernard sees many new business opportunities.

A client of EDC's for two years, Bernard notes that while other shops are trying to weather the current industry slowdown by operating at a loss, his shop is flourishing. At present, Bernard Mould aims to grow through partnerships in Australia, New Zealand, and India. Its management often looks to EDC's Global Comprehensive Insurance (see p.24) to justify a more aggressive client recruitment strategy. He notes, "Even with all the doom and gloom that currently dominates our industry, we are at capacity, and EDC is a large part of that." ■

Profile

Business: Design and manufacture of moulds
Established: 1969
Number of employees: 50
Export business: 70-75%
Export markets: United States, Mexico, Hong Kong, Malaysia, Taiwan
EDC relationship: Global Comprehensive Insurance (see p.24)
Contact: www.bernardmould.com

Fantom Technologies: *A Sweeping Success*

A bagless vacuum cleaner? North American consumers were once skeptical, but not anymore. Fantom Technologies Inc. successfully revolutionized the industry and is now taking aim at new products and markets.

By Cressida Barnabe

Soon after Fantom Technologies Inc., based in Welland, Ontario, introduced its line of bagless dual-cyclonic vacuum cleaners in the early '90s, consumers watched as dirt was sucked from seemingly clean carpets during half-hour television infomercials. Fantom's line of vacuums – with names such as Cyclone, Fury, Lightning and Thunder, and its television infomercials elicited a phenomenal response, not to mention sales.

"When we launched the new vacuum cleaner it was necessary to show, and prove to, consumers the features and benefits of our product," explains Fantom President and CEO Allan Millman. "We've found that infomercials not only create awareness and excitement for our products, but they also act as a trigger to drive retail sales since many consumers are reluctant to buy a product they have not seen in person."

Sales of their line of vacuums was brisk but so was the competition. Buoyed by consumer demand, all of Fantom's major competitors began to offer similar bagless technology. As a result, Fantom expanded its product line with the introduction of a more powerful, lightweight model called Wildcat and its new home water filtration system Calypso, which eliminates bacteria and viruses potentially found in drinking water. On the drawing boards is a "wireless" vacuum – yes, no cord to get tangled in! With its growing product line and new technology on the way, Fantom hopes to expand into more foreign markets.

While the company's growth in the United States climbed, Fantom turned to EDC to protect their bottom line. A customer since 1996, Fantom uses EDC's credit insurance to protect against default by their U.S. buyers. "EDC has been very co-operative in developing a number of business arrangements that accommodate varying levels of risk," explains Millman. "This allows us to maximize sales by continuing to sell to higher-risk accounts without undue concern for payment."

Millman hopes to tap into EDC's extensive overseas expertise to assist Fantom as the company expands. "We've found that it is critical to develop strong business relationships and partnerships with the people who conduct business and live in the markets you intend to cultivate and develop. These relationships not only help to find and to maximize growth opportunities, but also minimize new market mistakes!" His advice: "Definitely look to EDC for guidance and help to minimize the financial risks involved in a start-up (or even an established) market!"

Profile

Business: Bagless vacuum cleaners, home water filtration system
Annual Sales: $145 million (June 2001)
Number of employees: 378
Export business: United States (85%)
EDC relationship: Global Comprehensive Insurance (see p.24)
Contact: www.fantom.com

Securing Your Business Can Secure Your Bottom Line

By John K. Harrison

Business people are experts in assessing risk. They buy or develop products, assess the market and hope that their calculated risk pays off with a profit. Yet when it comes to calculating security risks, some business people are in denial. They take unnecessary risks by doing nothing. The consequences can be serious – bankruptcy, lawsuits, injury or even death.

Security is a management issue, not a technical issue. A security professional can assess your needs, but it's up to management to follow-through. Often, security measures are seen as a drain on resources, yet each prevented theft or lawsuit is an opportunity for greater profit.

Consider the following basics ...

Don't let your profits walk out the door

In the retail industry, for example, it is estimated that half of all bankruptcies could be averted through theft control. Just consider that if your profit margin is two per cent, and a piece of merchandise is stolen that costs you a dollar, you have to sell 50 more of the same article to recoup the loss. Most retailers have some sort of protection against shoplifting, but the ratio of employee theft to shoplift theft is seven to one. You may want to consider security screening for new employees as well as a review of your procedures in purchasing, receiving, storage and cash control.

An insurance policy isn't a silver bullet

One of the most effective and common ways to protect your business from a security threat such as burglary is through insurance. But after one or two claims, you may no longer be eligible for insurance at all. Look for methods to prevent having to make an insurance claim in the first place. Your security protection should encompass these basic principles: deter, detect, and delay, with an effective response. If it doesn't, get help.

Also keep in mind that a business owner is obligated by law to ensure the safety of its employees and visitors. Your insurance company won't cover you if you haven't taken reasonable steps to prevent an accident or incidence of violence. And an employee or visitor is then eligible to sue you directly. Banks instruct employees not to be heroes and almost all gas bars have procedures to lessen the likelihood of robbery. Think about the access control to your place of business and if the public has access to employees, consider providing the appropriate training.

Protect your most important asset: knowledge

Virtually all businesses now house at least one computer, containing precious knowledge. The threats to this computer-housed knowledge range from burglary, to professional hacking, to sabotage by a disgruntled employee. Could your business survive and be up and running in the event of a system outage? Are your computer files being automatically backed-up everyday? Does your IT professional care more about speed than security? Make security an issue.

If you travel, you're a target

In our global economy, business people travel to parts of the world which are fraught with danger – everything from robbery to kidnapping. Check out the excellent travel advisories put out by the Department of Foreign Affairs and International Trade at http://voyage.dfait-maeci.gc.ca/destinations/menu_e.htm. This could save your life.

Designing for security

Often, criminal opportunity can be reduced by redesigning the environment to deter criminal activity. Before contracting new construction, ask the project manager about "crime prevention through environmental design" concepts. Insist that the project include these design principles upon the advice of a security expert.

A thorough security analysis based on experience and professional education is a must if you want to protect your business' bottom line. In Canada and the United States, there are several security professional associations whose members can assist you in protecting your business in the most cost-effective manner: the Accredited Security Professional Association, the Certified Protection Professional Association and the Certified Information Systems Security Professional Association. ■

John Harrison is an Accredited Security Professional with over 30 years of experience. He has developed the Information Systems Security Program, the Advanced Investigations Program and the Security Management Program of which he is the coordinator at the Police and Public Safety Institute, Algonquin College, Ottawa (www.algonquincollege.org).

Check and Protect Easy as 1-2-3

By Brenda Brown

1. You have a potential export deal.

2. You check out your buyer on EDC's web site (www.edc.ca), accessing a database of 64 million companies in more than 70 countries.

3. You decide what to buy: an EDC insurability opinion, a detailed Business Information Report from Dun & Bradstreet, or EDC's Credit Insurance for your one export deal.

If some of the situations outlined below sound familiar, you might want to consider these two new services due to be launched in the next couple of months. You can find out more at www.edc.ca.

- You've got a lead on a foreign sale, but you have no financial or credit information on the buyer.
- You know there are risks with any export deal and want to minimize that risk by buying insurance that will cover up to 90 per cent of your losses if your buyer doesn't pay.
- You're new to exporting or moving into a new market and want extra protection, whether information or insurance coverage.
- You typically sell to very large or blue-chip type companies so don't need coverage for all of your export receivables. You want to pick and choose the buyers you want covered.
- You have an export deal, need financial support, and you know insurance can help you acquire financing from your bank.

Within the next few months, that's exactly what you'll be able to do using EDC's newest web-based services.

Called Export Check and Export Protect, the services have been designed to make it easier for exporters to check out potential buyers and get insurance for a single export deal. These services combine an international database of 64 million companies with EDC's automated insurability model.

With Export Check, customers can buy an opinion on whether EDC considers the buyer insurable for the amount of the sale. Costs begin at $60, which also includes a summary of some key credit and, when available, financial information on the buyer. As a complementary service, customers can also order a separate report from Dun & Bradstreet for detailed financial and credit information for as low as $135.

"The next logical move was to make it easier for exporters to get insurance once they'd checked out their buyers," says Gilles Morin, Vice-President of EDC's eBusiness.

With Export Protect, if the buyer is found in the database and the automated model (which EDC uses to insure thousands of transactions every year) considers the buyer to be insurable, the user will be immediately offered a quote for EDC coverage. The user can then choose from various options to purchase coverage on the spot.

Export Protect is designed for deals of up to US $250,000 and premiums range between 1.5 and five per cent of the deal's value. In the event of a claim, EDC would cover 90 per cent of the insured loss.

"It's fast, affordable and hassle-free," adds John Hutchison, Vice-President, Small Business Services. "It gives exporters peace of mind if they decide to go ahead with the deal. And if our automated model can't insure the deal, we make it easy for them to contact one of our specialists to discuss whether our traditional Credit Insurance coverage might do the trick."

Taking on the export challenge

For many companies today, surviving and prospering in a global world means looking at exporting as an option.

If you're thinking about taking on the export challenge, EDC's self-assessment tool called "Are You Export-Ready" will help guide your next steps. This tool will be the cornerstone of a new section on EDC's web site which includes resources to help companies develop a successful export strategy, as well as some answers to questions we hear most often. This new section will be available later this Fall. Check it out soon at www.edc.ca. ■

EDC Tool Kit

EDC offers a wide range of financial products to Canadian companies and their customers abroad. The following is a summary of these products.

→ Credit Insurance

Global Comprehensive Insurance (GCI) – protects domestic and/or export accounts receivable against risk from certain events including: default, buyer bankruptcy, repudiation, non-transferability of funds, termination/ cancellation of contract, or political disturbances; improves exporter's ability to secure working capital financing from bank.

Export Credit Insurance (ECI) – same as Global Comprehensive, except for small businesses.

Documentary Credit Insurance (DCI) – protects Canadian banks against risk of non-payment by foreign banks.

Specific Transaction Insurance (STI) – coverage against contract frustration and non-payment risks for same events as GCI but coverage is limited to one specific contract (cover also available for pre-receivable period, service contracts as well as film and television rights).

Sub-Supplier Domestic and Foreign Risks – covers sub-suppliers against contract frustration and non-payment risks.

Equipment (political risk insurance) – protects Canadian exporter's equipment at a job site against loss resulting from certain political risks.

→ Financing

Direct Loan – EDC lends money to foreign corporations and government entities to enable them to buy goods and services from Canadian exporters.

Line of Credit – EDC lends money to a foreign bank that in turn lends to buyers of Canadian goods and services. Provides fast and simple financing for small transactions.

Note Purchase – EDC purchases promissory notes on a non-recourse basis issued by the buyer to the exporter.

Purchase of Receivables – EDC purchases exporter's receivables at a certain fixed discount.

CIBC Grow Export – EDC guarantees 50 per cent of loans made by CIBC to small, knowledge-based companies with specific export contracts.

Leasing – EDC often participates as a debt provider to the lessor.

Equity – assists Canadian companies in securing export opportunities through the provision of medium-term investment capital.

Project Finance – used for large infrastructure projects as well as other large projects for which direct guarantee of project sponsor is not available.

Master Accounts Receivable Guarantee (MARG) – allows banks to provide operating lines secured by exporter's foreign accounts receivable.

Small Exporter Guarantee Framework – provides guarantees to Canadian banks for loans made to foreign governments and banks; increases financing options available to Canadian small business exporters by risk-sharing with banks.

Northstar Trade Finance – a public-private sector partnership providing fast and efficient buyer financing for smaller capital goods export transactions.

Scotia Americas Capital Equipment Program – used by Canadian companies to finance the purchase of capital equipment in Argentina, Chile, El Salvador, Jamaica or Trinidad and Tobago.

→ Contract Bonding

Bid Security Guarantee (BSG) – protects banks from any wrongful calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

Direct Surety Bond Support – by providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

Political Risk Insurance (PRI) – protects Canadian investors against political risks on projects of benefit to Canada. ■

Interested in an up-to-date list of all of EDC's available Lines of Credit (LOC) worldwide? They're on-line at: www.edc-see.ca/loc.

ExportWise

Editor
Julie Harrison
jharrison@edc-see.ca

Production Assistant/ Circulation
Deborah Chapman
dchapman@edc-see.ca

Creative Director
Phil Jones
pjones@insight communications.ca

Translation
Jean Beaudin, Denis Laberge, Pierre Legault, Tonia Pera, Huberte Poirier-Vachon, Maguy Robert, Anne Tanguay

Contributors
Cressida Barnabe, Brenda Brown, John Curtis, Shawn Dalrymple, Dave Giguère, A. Ian Gillespie, John Harrison, Toby Herscovitch, Lauren Klump, Stephen Poloz, Claudia Verno

EDC Advisory Board
Brenda Brown, Marc Deschênes, June Domokos, Andrew Douglas, Ruth Fothergill, Linda Graupner, Walt Hutchings, Suzanne Joberty, Leslie Kenway, Diana MacGibbon, Keith Milloy

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

EDC
151 O'Connor Street,
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada

EDC SEE

E-mails to the Editor

→ In part 2 of her interesting "Structuring an Export Contract," (June issue) Patricia Smith states, under 'Shipping and delivery terms': "Incoterms 2000 … address when title to the goods passes from seller to buyer … ." With respect, this matter is specifically excluded from Incoterms 2000 on page 6 (second paragraph) and in the ICC Guide to Incoterms 2000 (ICC Publication 620) on page 12 'Transfer of property rights'.

Michael Doyle
President, Michael Doyle & Associates
Member, ICC Working Party on Trade Terms

→ I have just received my first copy of *ExportWise* and, from a quick evaluation standpoint, it appears to be an excellent source of data and current news on Canada's industry sectors and global trade topics. Great source of information to enlighten me and my associates on Canada's role in global business.

Thanks for having my name on your mailing list.

Gifford Rabess
Member Services Coordinator
The Toronto Board of Trade/World Trade Centre

→ I read with interest the June/Summer 2001 issue. I also receive *CanadExport* from DFAIT. Both publications are useful to me, both in my law practice, which is principally international, and in the teaching I do in international business subjects at Osgoode Hall Law School of York University in Toronto.

I would make one comment on a short item in the June/Summer issue entitled "Guarantee Performance Guarantee/Bond Requirements" appearing on page 5.

The item is very short and thus cannot cover all aspects of this complex issue, so this is not a criticism. However, I would point out that although the alternative to an "on demand" instrument is described in the first paragraph (namely, the contract surety performance bond issued by a licensed surety company), the balance of the article does not explain the very important differences between the on demand instrument and the surety bond.

The main difference is that the surety bond is not an on demand instrument. It is only payable in the case of true default in performance by the exporter. In the case of a demand on that bond, the surety investigates to ensure that true default has been made and will not pay if there has been an improper call. This is an extremely important protection for exporters. (It also obviates the necessity for EDC's improper call insurance, which I agree is always indicated when an exporter uses an on demand instrument.)

There is another very important difference between the on demand instrument and the surety bond. The bondsman can avoid having to pay the "penalty" (as it is archaically called in the standard form of surety bond) by completing the contract on which its client defaulted. The financial institutions which issue the on demand instruments (mainly banks) are neither interested in nor capable of (and, in most jurisdictions, are prevented by law from) performing the contract. Surety bonds are priced on the assumption that the surety will complete, rather than pay the "penalty sum," in which event the contract price is received by the surety and there is no recourse against the client. This is an extremely important feature which is not adequately appreciated by exporters. They should propose supplying a surety bond instead of an on demand instrument in many, if not most, cases.

Thank you for your good work on this publication.

J. M. Robinson, Q.C.
Fasken Martineau DuMoulin LLP
Barristers & Solicitors

→ I read with interest your recent report "Mexico Inc.: Under New Management" in *ExportWise* (June/Summer 2001). Canadian exporters also have web access to valuable market and competitive intelligence to visualize market opportunities in Mexico. The Mexican Intelligence Report (www.mex-i-co.com) is a business oriented site for decision makers, exporters, investors, and those looking for recent business developments in this important market.

Noe Elizondo
VP Business Intelligence, Intelamex Inc.

Tell us what you think

ExportWise welcomes all feedback on articles, as well as suggestions for story ideas. E-mail the editor at: **exportwise@edc-see.ca**.

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Help us keep our mailing list up-to-date by notifying us on-line at www.edc-see.ca/address.

Canada is Still a Resource Play... and that's okay

The perception that Canada's economy is based on rocks, food and trees is gradually being replaced by a more diversified picture – but one that will always include a vigorous resource sector.

by Stephen S. Poloz

Ask an international currency trader to characterize the Canadian economy and he or she will immediately reply, "A resource play." What this means is that fluctuations in our economy and in our currency tend to be heavily influenced by movements in the prices of raw materials. Regardless of how diversified we become, our reputation as an economy based on rocks, food and trees remains largely intact.

This is essentially why the Canadian dollar declined so dramatically during 1997-98, from around 74 U.S. cents to nearly 64 cents. Global commodity prices plunged during the Asian and Russian crises and the ensuing slowdown in world economic growth pushed the Canadian dollar down to an all-time low. But it could have been a lot worse: the Australian dollar, which is also viewed as a resource play, fell from 80 U.S. cents to 60 cents during 1997-98, and more recently has been trading in the 50-55 cent range.

Like most modern economies, Canada's GDP is largely generated by the service sector – about 67 per cent, in fact, with another nine per cent generated by construction and utilities. About 15 per cent of GDP is in manufacturing, and the remainder (nine per cent) in the resource sector. These shares are highly stable over time, because services play such a dominant role. Nevertheless, even a swing in share of one per cent would mean a permanent loss of more than 100,000 jobs in one sector, with the slack being taken up in other sectors.

The external perception of the Canadian economy is driven more by the goods and services that we sell to the rest of the world. Canada's export sales break down as follows: 13 per cent services, 49 per cent manufacturing and 37 per cent from the resource sector. Within the resource sector, 21 per cent comes from mining and energy, 10 per cent from forestry and six per cent from agriculture.

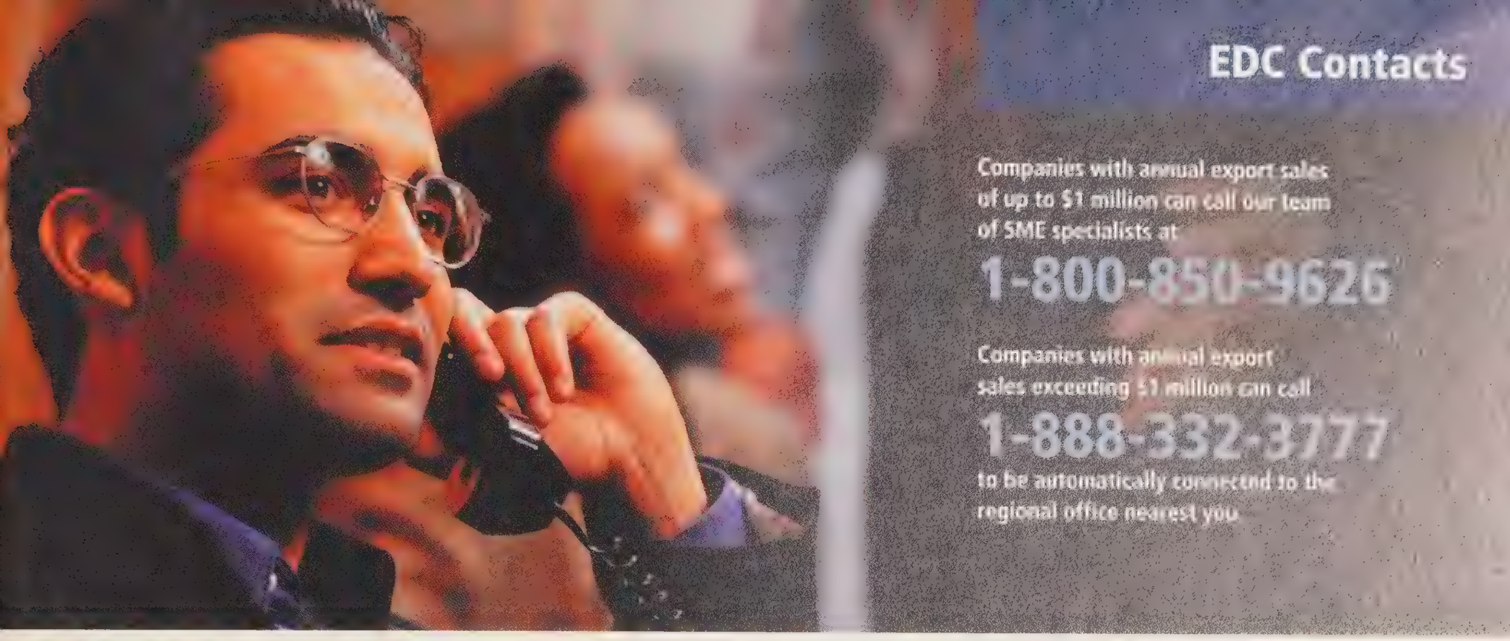
These figures have changed quite a lot in the past 10 years. In particular, the share of exports produced in the resource sector has fallen by seven percentage points, while manufacturing exports have risen by a similar amount. The drop in resources has been mainly due to forestry (-4 per cent), with mining (-2 per cent) and agriculture (-1 per cent) making smaller contributions. On the manufacturing side, the rise has been due entirely to increased production of machinery and equipment. There has also been a small decline in the share due to automotive products, and a small offsetting rise in the share of other manufactured goods.

The rise in the role of machinery and equipment exports in generating GDP is very welcome, as these tend to be high-growth, high-value goods that generate high-paying jobs. This export category includes aerospace, telecommunications and electronics, and specialized machinery, such as medical and environmental technologies. This year, we are forecasting that machinery and equipment exports will pass automobiles and catch up to mining/energy exports in terms of their importance to the economy.

Nevertheless, at 21 per cent of total exports, machinery and equipment sales are a very long way from passing the resource sector in its entirety, which stands at 37 per cent of our foreign business. The fact is, Canada is rich in energy, mineral, forestry and agricultural resources, and it is perfectly natural that we should remain world leaders in the efficient production of such goods. These sectors are not shrinking; rather, they are simply growing more slowly than some others. And, the economic diversification they offer to the Canadian economy works in our favour more often than not.

The bottom line? Global growth dynamics point to machinery and equipment exports as leading the way for Canada's economy for the foreseeable future. Resource sector exports will exhibit more moderate rates of growth. But future generations of Canadians will still see a substantial proportion of their national wealth generated in the resource sector. As for the Canadian dollar, it will gradually come to be governed by a broader set of factors than resource prices, but rocks, food and trees will always play a supporting role. ■

Stephen Poloz is EDC's Vice-President and Chief Economist. Check out his Weekly Commentary on hot economic issues at www.edc.ca/docs/country/economics/commentary.



Western Canada

Jim Christie
Regional Vice-President

Vancouver:
Blair Wilson
Business Development Manager
Tel.: (604) 638-6950
E-mail: bwilson@edc-see.ca

Calgary:
Bruce Stanton
Business Development Manager
Tel.: (403) 537-9800
E-mail: bstanton@edc-see.ca

Edmonton:
Karen Goss
Business Development Manager
Tel.: (780) 702-5233
E-mail: kgoss@edc-see.ca

Winnipeg:
Lewis Megaw
Business Development Manager
Tel.: (204) 975-5090
E-mail: lmegaw@edc-see.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto:
Laura Gainer
Business Development Manager
Tel.: (416) 640-7600
E-mail: lgainer@edc-see.ca

David Little
Business Development Manager
Tel.: (416) 640-7600
E-mail: dlittle@edc-see.ca

London:
Lillian Gagnon
Business Development Manager
Tel.: (519) 963-5400
E-mail: lgagnon@edc-see.ca

Ottawa:
Hal Miller
Business Development Manager
Tel.: (613) 597-8523
E-mail: hmiller@edc-see.ca

Quebec & Atlantic Canada

Henri Souquières
Regional Vice-President

Montreal:
Harold Riley
Business Development Manager
Tel.: (514) 908-9200
E-mail: hriley@edc-see.ca

Quebec City:
Jean-François Renaud
Business Development Manager
Tel. : (418) 266-6130
E-mail: jrenaud@edc-see.ca

Halifax:
David Surrette, Director of Business Development, Atlantic Canada
Tel.: (902) 442-5205
E-mail: dsurrette@edc-see.ca

Moncton:
David Surrette, Director of Business Development, Atlantic Canada
Tel.: (506) 851-6066
E-mail: dsurrette@edc-see.ca

St. John's:
Darrell Spurrell
Business Development Manager
Tel.: (709) 772-8808
E-mail: dspurrell@edc-see.ca

International Representation

Mexico:
Marvin Hough, Regional Director for Mexico & Central America
Tel.: (011) 525-387-[illegible]
E-mail: mhough@ed[illegible]

Brazil & Southern Cone:
J. Claudio Escobar, Regional Director for Brazil & Southern Cone Countries
Tel.: (011) 55-11-5509-432[illegible]
E-mail: cescobar@edc-see.ca

China:
Alison Nankivell
Regional Director for China
Tel.: (011) 86-10-6532-35[illegible] ext. [illegible]
E-mail: anankivell@edc-see.ca

Export Development Corporation
Head Office
151 O'Connor
Ottawa, Canada K1A 1K3
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Rolling Out Innovation

From family-owned Emery International (left) to the Domtar conglomerate (above), Canadian forest product exporters are putting a new technology twist on one of our country's oldest commodities. **10**

Braving a New World

A. Ian Gillespie
President and Chief Executive Officer

Whether we like it or not, we are going to have to brave a new world. The after-effects of September 11th are numerous, and somewhat unpredictable. As they spill over not only into Canada's economic landscape, but into the world's, the term "global marketplace" has never been more real.

Recession, widespread layoffs, consumer retrenchment ... while these possibilities do seem overwhelming, Canada's small businesses have voiced their resilience. In recent surveys conducted by the Canadian Federation of Independent Business (CFIB), small business owners showed optimism with 56.7 per cent expecting their firms to perform "about the same, somewhat stronger or much stronger." And looking a year ahead, 32.7 per cent feel either "strong" or "much stronger" about 2002.

Representing about half of Canada's overall economy and the majority of new job creation, this kind of resilient outlook from the small business sector is welcome news. Almost 90 per cent of EDC's customers are small- and medium-sized businesses, and we will continue to provide the risk management services they have come to expect.

EDC has stood by Canadian companies for a long time now – 57 years to be precise. And I think you will agree that EDC's public policy mandate to "support and develop, directly or indirectly, Canada's export trade and Canada's capacity to engage in that trade and to respond to international business opportunities" is more critical than ever. Without trade, our economy cannot grow. And without economic growth, our nation's prosperity is at risk.

Faced with this level of uncertainty, business planning for 2002 will need to focus on two benchmark scenarios: one, describing a balanced, positive outcome where an economic downturn is temporary; and another, where a protracted recession may be faced. Regardless of which scenario takes place, all businesses will need to reassess their business models, and test them. Selecting business partners will require more careful consideration, taking into account not only financial risk, but political risk as well. In short, where there is an opportunity to mitigate your risk, take it.

I have full confidence in the capacity of Canada's business community to demonstrate resilience in the new world that we face. And perhaps most important, to take action against risk and prepare for the unexpected.

A. Ian Gillespie, C.I.T.P.

Exporter Info On-line:

EDC has augmented its monitoring of global financial markets as well as economic and other developments so that Canadian businesses can have access to the most up-to-date analysis and advice. Visit our web site at **www.edc.ca**. On-line articles include:

- EDC offers advice to exporters doing business in the U.S.
- Questions & answers for exporters to the U.S.
- Fallout of the terrorist strike: a political risk perspective
- EDC's Fall 2001 *Global Export Forecast*
- Weekly Commentary by Stephen S. Poloz, EDC vice-president and chief economist

Winter 2002

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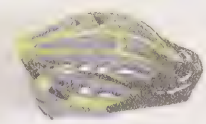

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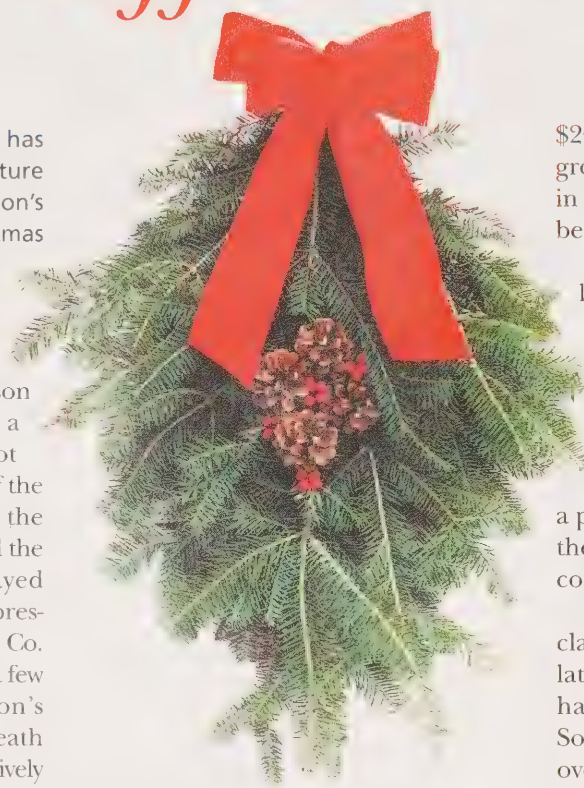
Listening to "Offshoot" Opportunities



by Cathy Lynch

Response to customer demand has dramatically changed both the nature and the profitability of Allan Wilson's business. When he bought a Christmas tree farm in 1981, Wilson viewed himself as a farmer, not a manufacturer.

That changed in 1987, when Wilson agreed to provide wreaths to a Christmas tree customer. "We got into the wreath business because of the tree business. It's funny, because the wreath business has skyrocketed and the Christmas tree business has stayed somewhat stagnant," says Wilson, president and founder of Wilson Wreath Co. Now, Christmas trees represent just a few thousand dollars worth of Wilson's sales, in stark contrast with the wreath business, which is literally and figuratively an "offshoot" from his trees.

Optimizing opportunity

The company starts manufacturing wreaths in the last week of October, works overtime to produce as many as possible by the end of November, then exports almost all of its product to the United States. Wilson says the American Thanksgiving represents the window of opportunity for manufacturing and shipping wreaths because his customers want a significant portion of their orders by then, before demand drops off in December.

During this high season, Wilson Wreath has 100 to 150 employees, with an additional 250 others supplying the harvested "tips" (cut greens used to make wreaths) or performing piece work off-site.

To further maximize the high season, the company works from mid-April until late October on auxiliary aspects of the business, manufacturing items ranging from rings used to make wreaths to wreath decorations. These have enabled Wilson to grow the business by offering mail-order and fundraising products, which now represent about 10 per cent of sales. "Every hockey team, school or church group is looking for products to use when fundraising, and we've tapped into that," says Wilson. It's another offshoot that has now become integral to the business.

Easing export anxieties

In 1992, Wilson's wreath shipment was \$100,000 worth of product to the United States. "I was timid to ship more because I was not familiar enough with the U.S. market," says Wilson. The following year, the company began insuring with EDC and felt comfortable enough to increase its shipments to \$202,000. Since then, shipments have grown each year, reaching \$1.7 million in 2000. This year, he predicts sales will be up another \$200,000 to \$300,000.

EDC insurance proved its worth last February when Wilson Wreath's largest customer filed for Chapter 11. "EDC insured us for 90 per cent, so we only wrote off a loss of approximately \$55,000 on that deal," says Wilson. "As a result, our company was less profitable, but we still made a profit. If I would have had to absorb the entire loss, it would have painted a completely different picture."

EDC paid the wreath company's claim of US\$340,000. Wilson speculates, "Without insurance, would we have gone under? I would say no. Somehow we would have maneuvered over it, but that's a lot of money. We would have had to finance some of that debt over the next three to four years. Instead, (this year) we still have a financial statement that many companies would envy, and we're expanding one of our shops."

This is yet another in a string of expansions. From its humble beginnings, in an uninsulated little shed, on a Christmas tree farm 30 miles north of Fredericton, Wilson Wreath has expanded to 10 factory locations throughout the province of New Brunswick. ■

Profile

Business: Christmas wreaths
Established: 1989
Employees: approx. 150
Export market: United States
Export business: 99%
Annual sales: \$1.7 million
EDC relationship: Accounts Receivable Insurance (see p.29)
Contact: 1-800-5-WREATH (1-800-597-3284)

Looking for Success in *International Markets?*

Many Canadian companies compete and win in foreign markets every day. Just as many fail. What spells the difference between success and failure? Focus and perseverance are key, say Canada's Trade Commissioners.

A company enters a foreign market, finds buyers, distributors and promising signs of success. Expansion to new markets quickly follows. But before long, problems crop up … maybe distribution goes awry or deals evaporate, and either way, more capital goes down the drain and the venture crumbles. What went wrong?

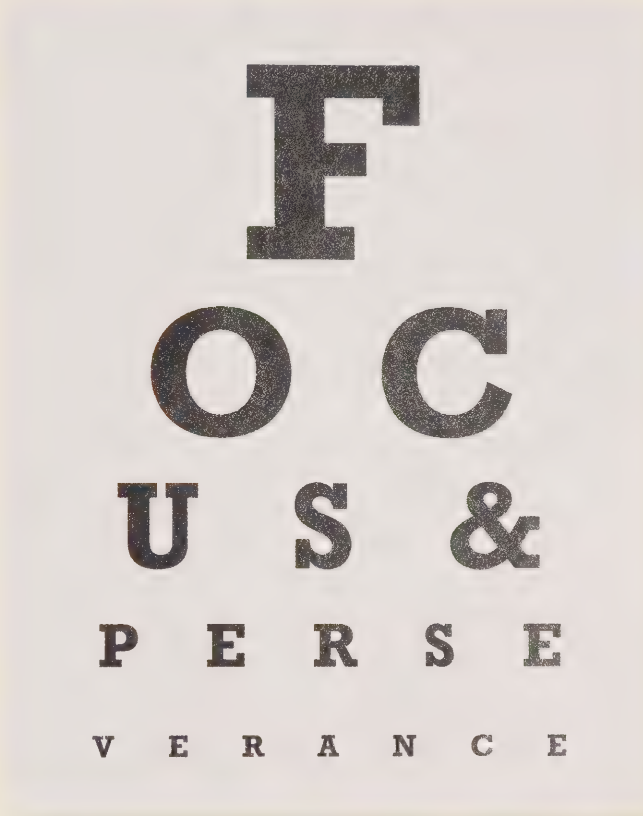
Prospective exporters looking to avoid facing the "what went wrong" situation can visit the Canadian Trade Commissioner Service (TCS) web site's "Tips of Success," which includes: "Zoom in on the most promising markets. Successful companies concentrate on one foreign market at a time, moving onto the next only after succeeding in the last."

Unless it's a one-time sale, companies need to establish their presence in a market. It's crucial to set down roots, keep buyers satisfied and maintain good contact with the players in a new business partnership. Nurturing a market's viability requires a company's concentrated effort and resources. In reality, many companies have only one representative or the owner covering their export business. Expanding too quickly can stretch a company too thin and lead to disappointing – if not disastrous – results.

"Businesses that do their homework, researching and selecting a target market, are on the right track," says Peter MacArthur, director of overseas operations at TCS. "But that's only the beginning." When launching into a foreign market, a company's optimism and commitment are at a peak, but trade commissioners say building an export market can take years. It can be a long and bumpy ride.

Set realistic expectations. Developing foreign markets is a long-term commitment; it takes time, effort and money. Make sure senior management is committed, and be prepared for the long haul – make perseverance your critical success factor.

The TCS is also setting realistic expectations as it focuses on better ways to help Canadian companies succeed. "Companies have told us what works," says MacArthur. "Our core services are built around these ideas."



Companies that have researched and selected their target market can expect the following six core services at all Canadian embassies and consulates abroad:

1. **Market prospect**: help to assess a company's market potential and entry strategy, helping the company make a "go" or "no go" decision.
2. **Key contacts search**: a customized identification of important contacts and partners in a company's target market.
3. **Local company information**: the low-down on local organizations and businesses identified by the company.
4. **Visit information**: practical advice on organizing a company's trip to its target market, including cross-cultural considerations.
5. **Face-to-face briefing**: market intelligence from trade officers in the field, covering recent market developments and the company's future interests and needs.
6. **Troubleshooting**: help with urgent business or market access problems.

To access hundreds of market studies or to electronically contact trade commissioners at their posts, log onto their web site at www.infoexport.gc.ca. To leave comments, call their toll-free feedback line at 1-888-306-9991. ■

Show Me the Money!

Got an export deal but don't have the money you need to take on more business, or pay the bills until you get paid? Well, EDC has a few tricks up its sleeve to help smaller exporters win at the export game. So roll the dice, get moving, and start exporting – because we can SHOW YOU THE MONEY!

by Brenda Brown

WHY PLAY THE GAME?

Exporting can be tough, especially if you are a smaller exporter or just starting out. You don't always know who you are dealing with, and the rules change from one buyer or market to another. Simple things like handshakes are taboo in some countries and a standard in others. Getting credit information on your buyer, understanding what legal jurisdiction applies if you get into a dispute, and figuring out what currency you will get paid in, are all things you need to know well in advance. This is where EDC can help. Not only can we SHOW YOU THE MONEY; we have almost 60 years of experience facilitating export deals in 200 markets around the world.

THE RULES

Equipment
All you need to play is a product or service to export, and a potential buyer.

Preparation
First, you have to check out the creditworthiness of your buyer. Simply call EDC, or use Export Check, an on-line service at www.edc.ca, to find out if EDC considers your buyer insurable and/or to order a Dun & Bradstreet credit report.

Money
Each player should look at EDC's SHOW ME THE MONEY Moves. Figure out which one is best suited to your needs. Still not sure? Call our Emerging Exporter team toll-free at 1-866-283-2957.

Go to jail
Okay, so you don't actually go to jail, but you do risk not getting paid. Better think about Accounts Receivable Insurance to cover yourself if your buyer doesn't pay, and understand the commercial and legal rules in the country to which you are shipping.

Pass GO and collect the rewards
The deal is done. You've been paid, and are ready to take on the next export challenge. Congratulations!

SCORE BIG WITH EDC's 'SHOW ME THE MONEY' MOVES

Score double points with Accounts Receivable Insurance

Not only does EDC's Accounts Receivable Insurance protect you against 90 per cent of your losses if your foreign buyer doesn't pay, it also converts your receivable assets into bankable assets. Take your insurance policy to the bank, because when your bank knows that your accounts receivable are insured by EDC, it is more likely to accept them as security when providing working capital financing.

Bonding your relationships

Your buyer wants you to post a bond in the form of a Bank Letter of Guarantee to make sure you will live up to the terms of your contract. But your bank won't issue the Letter of Guarantee unless you commit your line of credit or working capital as security. EDC can issue an insurance policy to your bank to protect it 100 per cent against any call (rightful or wrongful) made on the Letter of Guarantee. The bank is protected, and guess what? They won't tie up your working capital. EDC can also help you manage contract bonding related risks against a wrongful call by providing you with an insurance policy to protect you 95 per cent in case of a wrongful call.

Money before you ship

Trying to win a new export contract, and having difficulty raising sufficient working capital to fund pre-shipment costs? EDC can help. In cooperation with Canadian banks, EDC has developed a Risk-sharing Guarantee designed to encourage banks to advance pre-shipment loans to smaller exporters.

Your best friend MARG

With our Master Accounts Receivable Guarantee (MARG) program, EDC can help smaller exporters obtain up to $500,000 in additional working capital from their banks by guaranteeing the operating line which is secured by all of the exporter's foreign accounts receivable.

Factoring in the money

At EDC, we don't directly buy or discount receivables, commonly called factoring. But, if you have Accounts Receivable Insurance with us, your bank or another financial institution might be willing to buy your receivables. In return, you 'sell' your outstanding accounts receivable to them, which means you get more cash to run your business. We have set up two special factoring arrangements: Export Ease with the Accord Business Credit Inc. (1-800-967-0015) and Export Ease Plus with Montcap Financial Corporation (1-800-321-2977).

Show your buyers the money

To help you sell your capital goods and services abroad, EDC can provide medium- and long-term financing to your foreign buyer – but the money never leaves Canada. EDC pays the Canadian exporter as he/she meets the terms and obligations of the export contract, and the foreign buyer promises to pay EDC. This converts your credit sale into a cash deal, which will free up your working capital.

WINNERS' CIRCLE

Mario Grenier, president of Pyromaitre Inc. (Ste-Nicolas, Quebec)

"We heard about MARG from our bank. They wanted a guarantee that they would be paid, but wouldn't consider our receivables as collateral because we were shipping outside the country. This limited our access to working capital. With MARG, the bank knows they will get paid and we can better manage and control the money we need to grow our business."

Pyromaitre specializes in the design and manufacture of industrial ovens and furnaces.

Jim Lotimer, president of Lotek Wireless Inc. (Newmarket, Ontario)

"We use Accounts Receivable Insurance to access working capital from our bank, which in turn, has helped us to break into new markets where we had previously been unable to compete."

Lotek Wireless is a world leader in the design and management of fish and wildlife monitoring systems.

Stefan Lupke, executive vice-president of Corma Inc. (Concord, Ontario)

"Like any company, our success depends on our ability to stay competitive, manage an efficient cash flow and win the next contract. EDC has been an important ingredient in helping us free up working capital as we move forward."

Corma, a world-class fabricator of production equipment for corrugated plastic pipe manufacturing, uses EDC's bonding services, particularly Performance Security Guarantees.

Hanif Panju, president of Püsch (Calgary, Alberta)

"With Export Ease, we not only have Accord handling the costly and time-consuming administration of our credit and accounts receivable, we know that with EDC's Accounts Receivable Insurance, we can ship with confidence. It's a great partnership that allows us to do what we do best and concentrate on opening international markets."

Püsch is a design house that manufactures and exports a collection of men's and women's apparel.

Commentary

Translations *are Far from* Trivial

by Hassan M. Eltaher

In the international marketplace, translations can make or break a business deal. Addressing clients and prospects in their own language is not simply a matter of courtesy and convenience, but of strategic importance at practically all levels of business, including: marketing, promotion, contracting, sales, manufacturing, training and safety. Many a Canadian company has learned the importance of this lesson the hard way.

Translation tips

You want to avoid using a text that smells of translation. Accurate translation is a highly specialized science that is developed through years of experience. While contracts call for precise translation, advertising copy calls for artistic flair. And the best translators can do both.

→ Before engaging a translator, always ask for references. Make sure the translator is experienced in translating specialized material, and ask for samples of translations done for other clients.

→ Beware of translators advertising their ability to speak four or five languages. Speaking a language is one thing; having the skills and the ability to interpret or translate accurately from, or into, other languages is completely different.

→ If you decide to deal with a translation agency, ask to meet the individual translator to whom your work will be assigned. Remember that you hire talent, not companies.

→ If your project involves classified documents, make sure the translator and his or her office have the proper security clearance issued by federal authorities (Public Works and Government Services – Canadian and International Industrial Security Directorate).

Finally, it must be said that the quality of a translated text does not depend on the translator's knowledge and skill alone. It is also greatly affected by the quality of the original text, the background material available, and the time allowed for translation. Producing good work takes time and does not come cheap.

Annual reports, web sites and corporate videos

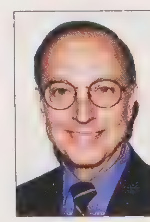
Providing a copy of the annual report – or at least a summary of it – in the native language of the client is definitely a catalytic asset for any exporter. As a rule, if the foreign language annual report is to be a prestigious and credible voice for your company, the translator chosen must be as professional in his/her field as your own top engineers or financiers is in theirs.

Today, most companies have their own web site and an increasing number make it a point to include a section in one or more foreign languages to respond to the needs of their current clients or prospects. Including text, or even audio-sound, in other languages is a fairly inexpensive add-on to an already existing site and can have business benefits.

Some companies are opting for multilingual multimedia presentations to attract international buyers. These are easy to store and transport on diskette, and can be displayed on laptops or projection screens. Also, information, data, specifications and price lists can be easily and rapidly modified or updated at little cost.

Corporate videos dubbed in foreign languages are another handy vehicle to promote products or services. While videos are certainly more expensive to produce than a web site, video players are a less expensive technology for play-back and are more commonly used overseas than computers. Also, internet access may not be available in certain countries because of government controls or because the service is expensive due to monopoly providers.

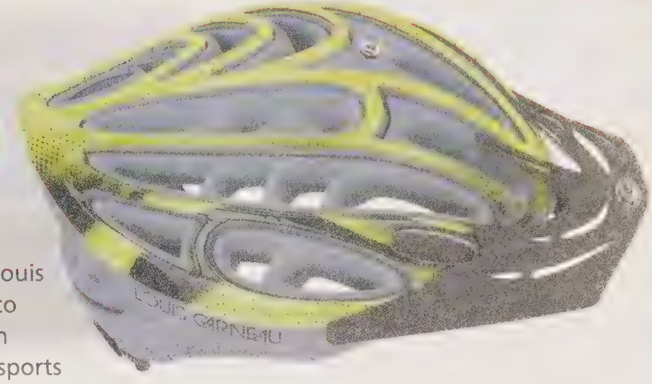
In the final analysis, translations are far from trivial and should be considered as an integral part of your export strategy. ■



Hassan Eltaher is president of East & West Communications, a multilingual communications and video production company. He can be reached at heltaher@igs.net.

The views expressed in Commentary columns are those of the author and are not necessarily held by EDC.

Louis Garneau Group: *Racing to the Top*



by Wendy Everett

In 1983, after having spent 13 years as a cyclist and Canadian champion, Louis Garneau was ready to embark on a second career. But, he was not ready to leave the cycling world behind. Instead, Garneau channeled his frustration with the cycling gear then available on the market into building his own sports apparel company, which now boasts over $50 million dollars in annual sales.

Now known as the successful Louis Garneau Group, this Quebec-based company sprung from humble beginnings: his father's garage served as both head office and the production plant. Garneau used his experience on the cycling circuit to design and manufacture top-line cycling shorts. His product met the needs of Canada's elite and recreational cyclists, and in 1989, he was able to move out of his father's garage and into his first manufacturing plant.

Louis Garneau Group soon found itself supplying top-line gear not only to cyclists, but to all of North America's sporting enthusiasts. Products now feature an extensive line of outdoor active wear, including: cross-country and downhill ski apparel; a line of children's clothing and bathing suits; and a wide variety of accessories ranging from cycling helmets to sunglasses.

While sales in North America kept climbing, the company was eager to extend its reach overseas. Demographic research confirmed that the cycling market was also hot in many other countries, but the company soon faced some common exporting roadblocks. Overseas customers often wanted 30 days with the product before payment was due, a demand next to impossible for a small company to fulfil. In addition, communication technology was not always up to par, and the legalities surrounding collection on defaulted loans seemed impossible to overcome. Louis Garneau Group began researching companies in Canada that could help and came across EDC.

With Accounts Receivable Insurance provided by EDC, Louis Garneau Group is able to reduce the risks associated with exporting. Yves Perras, credit manager for the company, says, "Having insurance helps give us an extra edge. Requesting cash from a customer before delivery is not always possible, but with EDC, that is no longer a problem."

It has now been 10 years since Louis Garneau Group first approached EDC, and the company now generates export sales from every continent, and in more than 30 countries. Perras notes, "EDC's support and experience with foreign markets definitely worked to our advantage."

The vision of the company's founder is reflected in the quality of every product they produce. As testament, Garneau's apparel is worn by Canadian and American Olympic teams and by world champions such as Myriam Bédard and Curt Harnett. Garneau has also been awarded with the 2000 Vision Award and the Officer of the Order of Canada (1999).

In a race to the top of the global sports apparel industry, Louis Garneau Group meets demand wherever it exists. Whether it be cyclists in New Zealand or cross-country skiers in Norway, Louis Garneau Group is committed to providing them with Canadian-made gear.

Profile

Business: Sports apparel and accessories
Established: 1983
Employees: 450
Export markets: Europe, Australia and Japan
Export business: 20%
Annual sales: $50 million
EDC relationship: Accounts Receivable Insurance (see p.29)
Web site: www.louisgarneau.com

ROLLING OUT

by Jane Daly

Large and small, Canadian forestry exporters are putting a new technology twist on one of our country's oldest commodities. From family-owned Emery International to the Domtar conglomerate, they are rolling out innovation.

Domtar increased production capacity by 25 per cent – without using more trees – by improving processes at their sawmills and secondary processing plants.

INNOVATION

Alan Emery remembers flying over China, and on the landscape far below, he noticed something unusual about the railroads. Snaking along each side of the track was a white line.

"Those white lines, visible from the air, were the chucked-out, non-biodegradable polystyrene lunch containers sold to millions of Chinese workers who take the train every day," says Emery, who is the senior vice-president of marketing for Emery International Development. It was just one example of how much Emery's family business is needed around the world.

If the egg cartons you buy are not made of plastic, then you've seen the kind of work that Emery International does. Emery is a family-owned business with 45 employees that designs and manufactures the machinery that moulds pulp fibres.

These fibres come from a wide range of sources which include wood pulp, recycled papers and paper mill waste sludge. The fibres are sucked onto a fine-mesh screen, then removed and dried so that they preserve the shape of the screen onto which they were moulded. Finished products include containers and packing materials, egg cartons, picnic plates and a wide variety of other products.

Demand for a cost-efficient way to dispose of waste sludge is high. "Waste sludge is usually burned or treated as landfill. But when Emery uses waste sludge, we transform a costly waste product into a value-added product that can earn up to $1,000 per tonne. Our largest machine can transform up to 25,000 tonnes a year, yielding a potential gross revenue of $25 million," says Emery.

Engineering modern pulp moulding machinery, however, is not a simple process. The machines are huge – weighing as much as 30 tonnes – and highly technical. Emery's Rotary Machines are the fastest in the world, designed for extremely high production rates. These machines can make 175 to 420 million products a year. Emery notes, "These machines are computer-controlled and operate at high speeds to produce millions of products, so they have to be well-built and carefully designed for safety."

The machines are also remarkably safe environmentally. Not only do they produce biodegradable products from waste materials, but they also recycle the water needed to make the pulp. "Our family has always been interested in the environment," says Emery. "My 94-year-old father, who started the business in 1956 and still goes into the office, created pulp and paper technology that puts clean water back into the environment."

→

But Emery explains that environmentally friendly machinery is more than a personal goal. "In general, what's good for the environment is also good economically, because you can recycle things, use less resources or have less waste," he says. "Making pulp takes a lot of water, but the only effluent released in our system is evaporation. That becomes an important part of our branding and image. Customers want low costs, and the less resources you have to use or waste, the cheaper your costs will be."

Emery adds that his family has always tried to be on the cutting-edge of technology. "It's been an evolution," he says. "There are almost no drawing tables left in the place – now it's all computer-assisted design."

The company's web site is also a testament to technological efficiency. "It's interactive, with a calculator where potential customers can put their own numbers in and see if they can make a buck with us," Emery says. "The inquiries we get are serious because customers have already been to our site so they know what it's all about."

But Emery's favourite technology may well be e-mail. "I am just completing a sale in Mexico with a customer I have never seen or talked to," says Emery. "Everything was done through e-mail. E-mail saves thousands in travel time and money."

And when Emery does go on the road, he takes what he calls "toys" with him. "We have an interactive show that I do with my laptop and a digital projector. I put the customer on my team and together we figure out what can make his project work. For example, what would happen if the price of electricity doubled? I punch that in and we can see instantly how the profit line has changed. They love it. What would have taken weeks to show or figure out before now happens in a second, right before their eyes."

"Our family has always been interested in the environment," says Emery. "My 94-year-old father, who started the business in 1956 and still goes into the office, created pulp and paper technology that puts clean water back into the environment."

www.emeryinternational.com

Domtar is a leading North American producer of lumber, pulp and paper products, and construction materials. It employs 12,500 people and enjoys annual sales close to $6 billion for its lumber, market pulp, uncoated freesheet papers, printing papers and specialty papers, as well as corrugated containers and specialty packaging materials to customers across the continent. It directly and indirectly manages 36 million acres of forestland in Ontario, Quebec, New York and Maine – an area roughly the size of New York State in total.

Like Emery, Domtar is aggressively using and developing new technology. For example, Domtar firmly believes in sustaining forests and that information about its forest management practices should be available to the public. To do so, the company used Geographic Information Systems technology to create precise aerial maps of their forests, and then integrated these maps with information on-line. Now, with a click of a mouse, any interested party can view Domtar's five-year plans for each forest section on their web site.

To protect forestry resources, Domtar invested $130 million in its sawmills and secondary processing plants in Ontario and Quebec. This increased production

Canada's Forest Sector

by Todd Evans

Canada, using less than one half of one per cent of the world's commercial forestland, produces more than 20 per cent of global forestry exports. Simply put, Canada is the world's largest forestry exporter, and one of the most efficient producers of forest products. Selling primarily to the United States (79 per cent of sales), the forest sector directly employs three per cent of Canada's workforce, and annually purchases more than $7 billion in supplies and services from other Canadian industries including:

- $3 billion in energy and utilities
- $2 billion in transportation services
- $1.5 billion from the chemicals sector
- millions in fabricated metals, plastics, high-tech control systems, pollution abatement, processing equipment and engineering services.

With computer-assisted design, Emery strengthens an egg carton's structure by adding struts and posts and enhancing egg cushioning.

Now, with a click of a mouse, any interested party can view Domtar's five-year plans for each forest section on their web site.

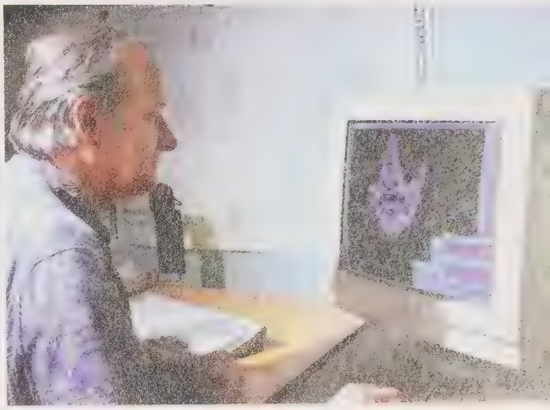
www.domtar.com

capacity by 25 per cent without using more trees.

Domtar is in the midst of implementing an Enterprise Resource Planning (ERP) system using SAP software, so that it can produce an order even faster within its supply chain by using end-to-end processing. The new ERP system is already giving customers 24/7 service via the Internet. "We were the first in the industry to have a business-to-business site for paper customers so they can access some transactions on-line, such as checking their accounts," says William George, vice-president of communications and government relations.

The adoption of Kaizen, a Japanese methodology for increasing quality, is another key step for Domtar. Like ERP, Kaizen (which means "improvement") consists of mapping the various steps in a production process and eliminating those that add no value. Kaizen is also a way of thinking, encouraging one to constantly improve. "That ideology underlies everything we do at Domtar," says George.

The innovative and progressive technology adopted by Canada's forestry sector is good news indeed. Good news for our forests, and good news for our economy. More than 10 per cent of the earth's forests – about 420 million hectares – lie within our borders. Some 775,000 Canadian jobs and more than



350 single-industry towns are dependent on the forest industry, and 15 per cent of the value of all manufacturing comes from forest products. Forest products are Canada's largest export. Simply put, anything that impacts Canada's forests can have dramatic repercussions throughout the economy.

Stretching back more than 200 years, the history of Canada's forestry business is literally rooted in an "old world" commodity focus. But Canada's forestry sector is anything but "old world." It is a full-fledged member of the new world of fast-paced technological innovation, global trade and an increasing demand to balance human need with environmental impact. ■

Did you know...?

The bear that spawned the idea for the Winnie the Pooh stories was born in a forest neighbouring the Domtar sawmill in White River, Ontario. On his way to battle in WWI, Harry Colebourn met the orphaned bear in White River, where his train had stopped to refuel. Colebourn bought the bear, named her after his home town Winnipeg and brought her to England as a mascot for his regiment. When the regiment went to battle in France, the London Zoo became Winnie's "babysitter," and that's where she was nicknamed "Winnie the Pooh."

Economic outlook

The outlook for Canadian forestry products, particularly for pulp, lumber and other building products, has weakened in 2001. Newsprint, which had to-date held up relatively well, now shows signs of distress. A slowing North American and global economy has reduced demand, causing inventories to build and prices to deteriorate. The largest price drops in 2001 have been for lumber and building products. Recent months have also seen declining pulp and newsprint prices, and further weakness is anticipated. Going forward, markets are expected to remain sluggish over the near-term, with recovery not likely until the first or second quarter of 2002.

Lower exports for most products, save newsprint and paper, are expected in 2001 and further declines are possible should the global economy deteriorate further. The export outlook should improve in 2002, but will be tempered by a delayed recovery in the United States as a result of the September 11th terrorist attack. Moreover, the risk of an extended U.S. recession cannot be ignored. Under such a scenario, Canada's forestry exports would be expected to decline further in 2002.

A full discussion of these scenarios can be found in the EDC Fall 2001 *Global Export Forecast,* available on our web site at www.edc.ca. ■

The Softwood Lumber Dispute:

A 20-year-old thorn in the side of Canada-U.S. relations

The Quebec Lumber Manufacturers' Association (QLMA) represents the softwood lumber industry in that province and continues to play a lead role in the push for an agreement to end the long-simmering dispute surrounding Canada's softwood lumber exports to the United States. Here, *ExportWise* discusses the nature of the dispute with Marc Boutin, QLMA's director of international trade and a 30-year veteran of the lumber industry.

ExportWise (EW): Why has the softwood lumber dispute been so difficult to resolve?
Marc Boutin (MB): It is an incredibly complex issue involving dozens of companies, governments and other stakeholders. The lumber industries in Canada and the United States are fundamentally different. In Canada, for instance, 90 per cent of commercially logged land is publicly owned; only 10 per cent is publicly owned in the United States. In Canada, international trade falls under the mandate of the federal government, while resources – such as forests – are under provincial jurisdiction. The Americans govern differently. On top of that, forestry management varies widely from region to region in both countries.

EW: What is the dispute all about?
MB: Much of the dispute surrounds the definition of stumpage fees. Simply put, stumpage fees are the amount of money a company pays to cut down trees. The American perception is that Canadian companies pay less than full value.

Canada defines stumpage fees differently; here, a company acquires cutting rights, and along with it comes a series of obligations such as forest management, reforestation, road building – the list goes on and on.

Many Americans also feel that governments in Canada sell logging rights for overly long periods. Most companies here buy 25-year leases that can be renewed every five years or so. The Americans allege that because these leases seem to be tied to harvesting obligations, Canadian companies continue to harvest even when the price of lumber is low – which ends up pushing the price down even more.

EW: How significant is this dispute to our overall trade relationship?
MB: Outside of the after-effects of September 11th, which have cast a huge shadow on all bilateral issues, the dispute over softwood lumber is the greatest trade challenge facing Canada and the United States. Forestry products contribute more to Canada's positive trade balance than any other sector, and the United States is our primary market for lumber. Legally, the softwood dispute represents the largest trade case in Canadian history. So the stakes are high – economically, legally and politically.

EW: How do you think the dispute can be resolved?
MB: I remain optimistic that a long-term agreement will be negotiated. Clearly, it won't be easy. And it will likely involve a compromise. However, there is a sense that both sides would like to resolve this once and for all.

It is important to recognize that the softwood lumber industry is continental in nature – there is substantial American ownership of Canadian lumber companies and Canadian ownership of those in the United States. Our markets become more integrated every day. The tragedy is that both sides end up devoting a lot of resources and energy to the conflict when we could be working together. Sometimes we seem to lose sight of the overall benefits. If we could redirect this energy towards the promotion of the product and the development of new products, I believe we'd all be better off. ■

Sustainable Forestry: *Made in Canada*

Global customers demand price and quality when they purchase forest products, and they also demand products from a sustainably managed environment. Made-in-Canada forest products meet all three demands.

Canada is the first country in the world to have independently established National Standards for Certification of Sustainable Forest Management. In fact, according to Fiona Cook, vice-president, international trade and government relations with the Forest Products Association of Canada, Canada is the most certified forestry area in the world.

"Attaining certification can take up to two years and it's rigorously measured right down to the ground soil. But meeting the requirements of the Canadian Standards Association (CSA) can be a valuable tool to show you're practicing sustainable forestry management – a requirement that is now frequently written right into procurement policies," says Cook.

The CSA standards are unique in that they provide measurable objectives for continuous improvement, public input into objectives, independent third-party audits to verify compliance, and annual reporting to the public.

Other initiatives help forests grow

"Unlike the private woodlot structure of the United States, most of Canada's forest lands – 94 per cent – are owned publicly by Canadians through their governments," says Cook. "So public participation in forest management is essential. The result is that sustainable forestry management practices tend to go beyond what's required at the policy level."

And the policy level is strict on its own. The way forests are managed has also changed dramatically from when provincial governments were once responsible for forest regeneration after harvesting. Now, a provincial government and a company will work together to establish an agreement of how the forest will be managed through one-year, five-year and long-term management plans.

These plans, like the CSA standards, are comprehensive and extensive. For example, 20- to 25-year management plans must include forest inventories; mapping measurement of growth rates; calculation of allowable harvest volumes; provisions for reforestation and protection from fire, insects and disease; as well as provisions to protect water quality, wildlife habitat, recreational values and more.

Forest regeneration, which is required by law after a harvest, is also on the rise. The annual number of seedlings planted in Canada has grown from 244 million in 1980 to more than 700 million today. Canada has a 99 per cent success rate at regenerating harvested areas within 10 years.

For Cook, the harmonization, co-operation and stringent rules between policy and voluntary practice is a win-win situation for every party involved. She notes that there are four certification programs in use in Canada and that all provide sound forestry management practices. "Anyone looking to buy products from sustainably managed forests can rest assured," says Cook. "If those standards are 'made in Canada,' then you know it's not just a marketing ploy."

Want to find out more?

For more information about sustaining Canada's forests and other ways forest products companies are working together to create a viable future, visit the Forest Products Association of Canada at www.fpac.ca ■

Congratulations

EDC Celebrates Canadian Exporter & Entrepreneurial Achievement in 2001

ACCOLADES
Thorburn Equipment Inc.*
Exporter of the Year

ALBERTA BUSINESS AWARDS OF DISTINCTION
Komex International Ltd.
Western Economic Diversifications' Export Award of Distinction
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Premier's Award of Distinction

APPAREL-BC
E.T.O. Clothes Ltd.*
Export Award

BC EXPORT AWARDS
Anthony von Mandl
Leadership Award
Extreme CCTV Inc.*
Advancing Technologies Award
Lions Gate Entertainment Corp.
New Media and Entertainment Award
Lunny Communications Group*
Creative Partnering Award
Norco Products Ltd.
Marketing Innovation Award
Northern Airborne Technology Ltd.
Manufactured Products Award
Paradata Systems Inc.
New Exporter Award
Pearl Seaproducts Inc.*
Consumer Products Award
Riaz Meghji
International Business Student Award
Sandwell International Inc.*
Exporter of the Year Award & Professional Services Award
Teleflex (Canada) Ltd.
Market Sustainability Award

BRANHAM AWARDS
Research in Motion Ltd.*
Company of the Year
SureFire Commerce Inc.
Turnaround Company of the Year

CANADA INNOVATION AWARD OF TECHNOLOGY
Acadian Seaplants Limited

CANADA EXPORT AWARDS
FieldTurf Inc.*
Fincentric Corporation*
Global Thermoelectric Inc.*
Grand Atlantic Seafoods
Kitsaki Meats Limited Partnership
Lauzon Distinctive Hardwood Flooring
Mermaid Theatre of Nova Scotia
Teknion Corporation
The Pressure Pipe Inspection Company Ltd.
The Shaw Group Limited

The Pressure Pipe Inspection Company Ltd.
Smaller Exporter Achievement Award

CANADIAN WOMAN ENTREPRENEUR OF THE YEAR AWARDS
EDC Export Award
(TBA November 22, 2001)

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Syntetica Inc.
Tenrox Inc.

NEW BRUNSWICK KNOWLEDGE INDUSTRY RECOGNITION & ACHIEVEMENT AWARDS

SmartForce
Caris Universal Systems

NEW BRUNSWICK EXPORT AWARDS

Atlantic Waffles

NEWFOUNDLAND & LABRADOR EXPORT AWARDS

BAE-Newplan Group Inc.
Services Export Award

Fogo Island Co-operative Society Ltd.*
Goods Export Award

Lotek Wireless Inc.*
Marconi Communications Export Award

NewTech Instruments Limited
Interprovincial Trade Award

Northstar Technical Inc.
New England Trade Award

NOVA SCOTIA EXPORT AWARDS

Avon Valley Floral Products
Brooke Ocean Technology Ltd.*
Darmos Enterprises International Ltd.
Keane Canada, Inc.
Mermaid Theatre of Nova Scotia
Neocon International Inc.
Shaw Wood Industries

ONTARIO GLOBAL TRADERS AWARDS

Joseph Ouellette, President, Acrolab Ltd.
Leadership Award

Medtronic of Canada Ltd.
Market Expansion – Product

Ricardo de Lima
Student Achievement Award

The Pressure Pipe Inspection Company Ltd.
Market Expansion – Service

Vistar Telecommunications Inc.
Innovation Award

Wabi Iron & Steel Corp./Eagle Crusher Company Inc. (Ohio)
Partnership Award

PREMIER'S AWARD FOR INNOVATION

Timeless Technologies Inc.*

PROFIT 100

Aastra Technologies Limited*
Creditron Inc.*
FRED Systems*
Genesis Microchip Inc.*
Hydro-Mobile Inc.*
JDS Uniphase Corp.*
Kaval Wireless Technologies Inc.*
Matrikon Consulting Inc.*
Online Entreprises Inc.*
Research in Motion Ltd.*
Sierra Wireless Inc.*
TMH Canada Inc.*
Wi-Lan Inc.*
(Listed are EDC customers only. Please see www.profitguide.com for full list of winners.)

RICHMOND HILL BUSINESS ACHIEVEMENT AWARDS

AME International
Synamics Inc.*
Wright Environmental Management Inc.

SASKATCHEWAN TRADE & EXPORT PARTNERSHIP

Newfield Seeds Company Ltd.*
Exporter of the Year

VAUGHAN CHAMBER OF COMMERCE

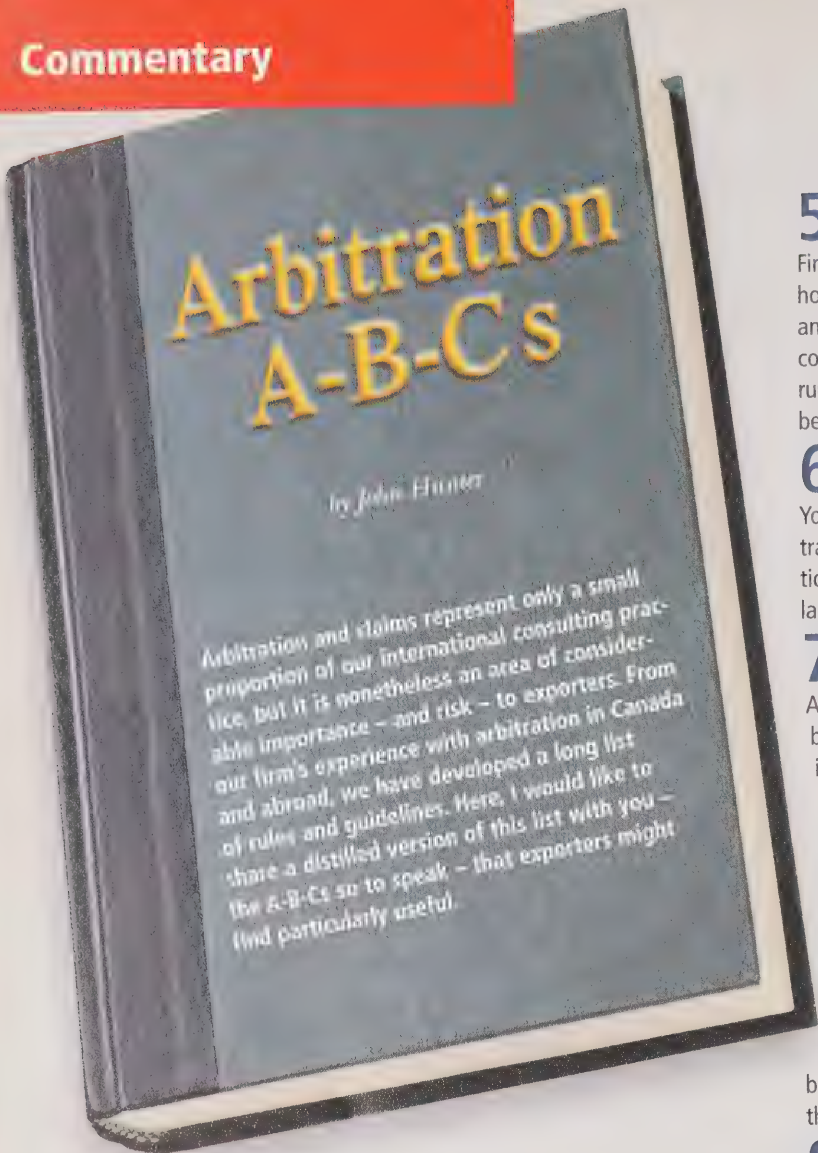
Pro-Line Automation Systems Ltd.
Exporter of the Year

YOUNG ENTREPRENEUR AWARDS

Arctic Jewellers
Atlantis Health Spa
Ben-Don Innovations (BDI) Inc. & Clear-Green Biotechnologies Inc.
Bitonic Solutions Inc.
Canos Consultants Inc.
Core Networks Inc.*
Guardian Security Services
i4Design Inc.
Kutters Hairstyling
Natsiq Productions
NuMedia Internet Inc.
Strauss Communications
Urban Organics

NuMedia Internet Inc.
Export Achievement Award

* EDC customer



1 A bad settlement is often better than a "good" arbitration decision

You can get an unreasonable arbitration award, particularly with a single arbitrator, and in many venues there is a limited (or no) ability to appeal. So, don't arbitrate on principle or for small dollars, as arbitration can harm business relationships (although probably less than litigation). Be sure to choose your battles wisely – arbitration may spook other parties from doing business with you.

2 Work all levers to get a settlement

The threat of publicity can be a good deterrent; remind your opponent of the media exposure that could result from an arbitration.

3 Recognize that your opponent may prefer arbitration

For many, arbitration may be preferable to making a tough decision in-house. As such, you may be able to have a friendly arbitration.

4 Have a business person manage the process, not a lawyer

This will minimize costs and maximize your chance for a settlement. You will, however, need pragmatic and competent legal counsel.

5 Spend a lot of time on strategy

First, get people on your team with experience. You'll need to consider how and if you will push a settlement, as well as your leverage issues and award scenarios. Be sure to delineate your evidence needs, staffing concerns and basic arbitrary positions. It will help to do argument dry-runs as well as witness training. Also consider the venue, rules, and number/nationality/qualifications of your arbitrators.

6 Analyze the arbitration clauses in your contract

Your contract is a starting point – if this is a mess, so too will be arbitration. Find out if you can override or "freeze" the rules of the arbitration centre, or if you can appeal the decision, timelines, governing law, languages, or the minimum threshold for arbitration.

7 Arbitration is neither fast, nor cheap

Arbitration is generally faster, cheaper, and more flexible than litigation, but by no means is it fast or cheap. Costs for a major arbitration can easily run in the million-dollar range per party, and a year from the arbitration notice to award is quite possible. Manpower and management requirements for preparation and prosecution are significant, so do not under-resource the effort.

8 Consider the BCICAC as your place of arbitration

The British Columbia International Commercial Arbitration Centre (BCICAC) is a not-for-profit organization established by the governments of B.C. and Canada. Arbitrators can be from anywhere in the world and your lawyer does not have to belong to the B.C. bar – both important advantages. It will be cheaper and faster than most of the large centres in Europe or the United States.

9 Check your country strategy

Does the country you are exporting to, or working in, recognize and enforce international arbitration (if any)? Can their courts overturn or stall arbitrations? Do they have to review/approve awards? If the answers are "no, yes, yes" – go elsewhere.

10 Check the background of all participants

Ensure the chair is a lawyer with experience in arbitration. Thoroughly check out your arbitrator candidates and your witnesses. ■

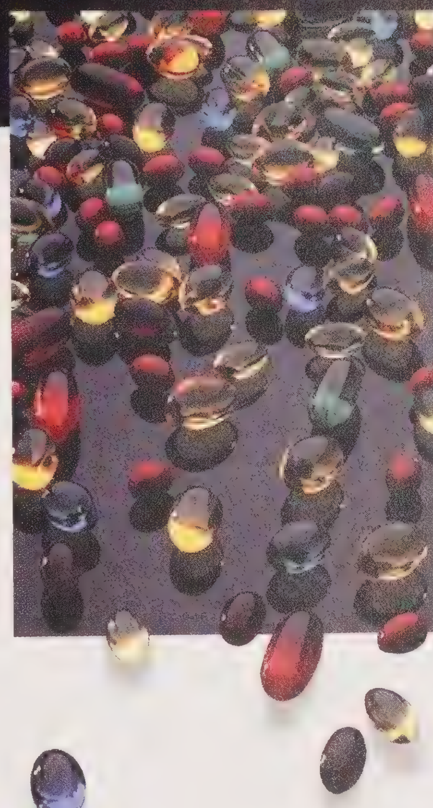
John Hunter is president and CEO of J. Hunter & Associates, a Vancouver-based international business consulting firm. He had executive responsibility for the Union Gas-WGML arbitration at BCICAC and spent most of last year in Mexico City in arbitration preparations for a large claim that was successfully settled by negotiation. His e-mail is johnhunter@idmail.com.

The views expressed in Commentary columns are those of the author and are not necessarily held by EDC.

Technophar: Encapsulating Technology

By Cressida Barnabe

How do candies get that hard coating? And how do they get the medicine in those tiny little capsules? Ontario-based Technophar creates the technology that answers some of life's little questions.



Herman Victorov, president and CEO, is proud that Technophar is the only company in the world manufacturing both hard gelatin and soft gelatin capsule machines. The technology encapsulates everything from paint balls to medicine, and yes, they even put the hard coating on some of our favourite candies.

A mechanical engineer by training, Victorov was working at R.P. Scherer Hard Capsule Company in Windsor in the 1970s, where he had helped increase the company's production performance. In the 1980s, he left to start his own company with a goal to redesign and build a better hard gelatin machine using updated technology (the old hard gelatin design dated back to 1909).

Recognizing the need to diversify, Victorov created operations to encompass both hard and soft gelatin and, in 1994, Technophar designed the first soft gelatin encapsulation machine manufactured in Canada.

While Technophar maintains its stance as the recognized leader in the hard gelatin market, the company has met with increased competition in the soft gelatin market from companies in Japan and from across Europe. But with a focus on innovation and quality control, the company has managed to create opportunities where none seemed apparent.

"The company made a conscious decision to invest every dollar into equipment and research and development," adds Victorov. "We wanted to do it. We saw opportunities, and we did it. We've grown the company from eight people to more than 400 worldwide."

Selling Canada to the world

Exporting has been a key to Technophar's success. An EDC customer since 1991, exports now account for 95 per cent of the company's sales.

With an emphasis on providing customers with full turnkey services and by manufacturing everything in-house, Technophar has delivered equipment and provided technical support to clients in Canada, China, France, Romania, Korea, Colombia and the United States.

Victorov speaks proudly of his participation in two Team Canada Missions. His participation in the 1994 (China and Vietnam) and 1997 (Korea, Philippines and Romania) missions both led to export contracts. "The trade missions presented us with excellent opportunites. We were able to sign lucrative contracts in China and Vietnam in the presence of the Prime Minister."

Technophar's success is a result of international market opportunities. As an exporter, Victorov sees his job not as the president of a company, but as a Canadian ambassador selling Canada to the world. "As exporters, we have a responsibility – we are unpaid ambassadors of Canada. We do not simply represent a company, we represent Canadian technology and innovation. When the job isn't done right, it reflects poorly on Canada, not just on the company. We take a lot of care to do the job well."

But, how do they get medicine inside those capsules? Victorov could tell you, but he'd rather you set aside some time to visit the Technophar facility personally and see just how complex it really is. ■

Profile

Business: Hard and soft gelatin capsule production and equipment
Annual sales: $20.1 million
Employees: Canada, 130; globally, 400
Export business: 95%
EDC relationship: Accounts Receivable Insurance, Financing, Contract Bonding (see p.29)
Contact: www.technophar.com

Bom Dia Brasil

by Dominique Bergevin and Claudio Escobar

Travellers have long recognized Brazil as a haven of beautiful beaches and tropical forests. These days, though, it is just as common to find international business people exclaiming *bom dia Brasil* – good morning Brazil!

Brazil's business culture has not always been as warm and bright as its climate. A series of economic crises caused by the removal of protectionism and currency devaluation precipitated a great deal of skepticism in the market. But a new focus on marketing, strategic alliances, long-term planning, and financial ratios has brought widespread success to the Brazilian corporate sector. Corporate consolidation, privatization and deregulation have succeeded in creating a massive influx of foreign direct investment (FDI).

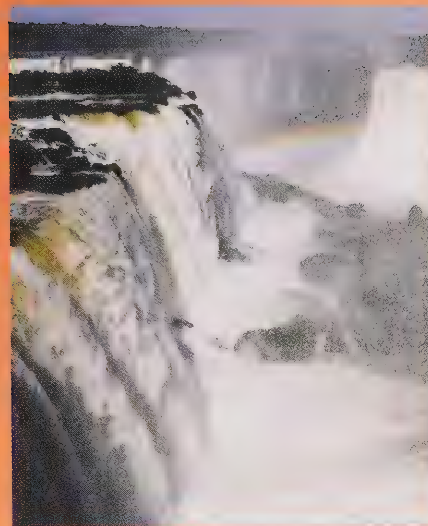
Brazil's sizable economy (the 8th largest in the world), 8.5 million square kilometres of land, and population of more than 170 million, offer substantial opportunity for international trade and investment. Canadians are especially poised for success, as our competitive advantage is in demand in several industries: telecommunications, energy, mining, environmental services, and infrastructure.

Telecommunications

In 1999, Brazil completed the large-scale privatization of its telecommunications sector, which inevitably opened up the market to competition. Subsequently, this sector became the largest in Latin America, attracting approximately US$8.3 billion investment dollars in the year 2000. This amount is projected to reach US$75 billion by 2003, with US$23 billion still required in the areas of fixed-line and mobile telephone systems.

The substantial demand that has surfaced, both in terms of wire-line and cellular service, makes Brazil an investment destination for all the global players in Canada's telecom industry. Specifically, lucrative opportunities exist in the area of fixed-line services. The country's Communications Ministry estimates that 98 per cent of its rural households are currently without fixed-line services – representing a potential market of more than 25 million users.

An important element to understand for Canadians looking to do business in the Brazilian telecom sector is the General Telecommunications Law (LGT). The LGT governs all activity in the sector and has been successfully enforced by ANATEL, the regulatory board formed to co-ordinate all communication services in Brazil. Since the creation of this regulatory body in 1988, strict quality and service standards have been put into place, and their adherence is fully expected.



Energy

Contrary to practices followed by the United States, Japan, and most European countries, Brazil generates the majority of its power through hydro power stations. Brazil operates few oil-fired and coal-fired thermal-generating stations and only two nuclear power plants.

Brazil's dependency on hydroelectricity has traditionally been managed with an allowance for variations in the annual rainfall. However, with little capacity increases throughout the early 1990s, as well as the complexity of the country's energy sector privatization and delays in the construction of several generators, Brazil now faces an energy shortfall. The government reacted by imposing an energy-rationing plan in both residential and industrial areas, asking Brazilians to reduce their consumption by an average of 20 per cent.

President Fernando Henrique Cardoso's public plans to accelerate investment in all forms of energy are creating many opportunities for competitive, world-class companies in the energy sector, and are designed to ensure that the 2001 shortages are not repeated. To avoid a shortage re-occurrence, foreign investment is essential in the areas of natural gas, co-generation, thermal generation, gas pipelines, power transmission lines, wind power, solar power, as well as hydro power development.

Mining

As one of the world's most important producers of various minerals, including iron, ore, gold and copper, Brazil has shown a strong appetite for mining equipment, even in tough economic times. This is due in part to new, flexible, and stable mining policies that allow companies to increase their output capacity and to continue attracting foreign investment.

Brazilian entities recognize Canadian firms as world-class suppliers to this industry, and this is apparent in the increasing presence of Canadian companies in the market. In the year 2000 alone, no fewer than 40 Canadian exploration companies and nine mining equipment suppliers were active in Brazil.

Did you know...?

- Brazil is the world's fifth largest country in size
- Brazil borders every country in South America, except Chile and Ecuador
- 80% of Brazil's population lives in urban areas
- The Amazon forest covers 40% of Brazil

Environmental services

Experts estimate that nearly $20 billion will be spent on environmental infrastructure and cleanup in Brazil between 1999 and 2003. The concerns are numerous – growing air pollution problems in the country's large urban centres, oil spills, energy preservation and consumption, and garbage collection – and all represent opportunities for environmental service companies.

Another key area of concern is Brazil's water and waste water treatment facilities. By 2005, more than 3,500 municipalities will begin renovating, upgrading, or constructing new treatment facilities. With such a large number of possible bids set to present themselves for private sector companies, Canadians will need to step forward in order to secure our share of contracts. Competition for this business will be intense, especially from Brazilian, American, German, French, and Japanese firms.

Did you know...?

- Every year Brazil's *Carnaval* festival begins at midnight on the Friday before Ash Wednesday and lasts for five days
- Brazil's Grand Savanna, Pantanal, hosts the largest variety of birds in the world
- Air Canada offers direct flights from Toronto to São Paulo

Infrastructure

Infrastructure investment and development is another key market of opportunity in Brazil, especially considering the size of the country. Specifically, Brazil offers great opportunities for foreign investment in the areas of metro system and port expansion as well as highway development.

Brazil's road system is the 12th largest in the world, and boasts roughly 1.5 million kms of highway, of which only 10 per cent is paved. The country's federal highway system is currently undergoing privatization (scheduled to be completed by mid-year 2002), and the government intends to sell seven concessions, which will operate a total of 2,610 kms of highway.

Also, with 13 major ports and nearly 7,400 kms bordering the Atlantic Ocean, there are significant opportunities in Brazil's ocean-shipping sector. Ocean-shipping is Brazil's main method of transporting goods; 94 per cent of all items shipped out of Brazil leave via water, and of the total volume of goods imported and exported in Brazil, 88 per cent are shipped by water. Brazilian ports have two clear problems: extremely high costs and long turnaround times. The port privatization and modernization process will be working with suppliers to find solutions.

While the five sectors presented here all represent key opportunities in the Brazilian market, there are a multitude of other prime matches between Canadian capability and Brazilian investment priorities. These industries include oil and gas, machinery and equipment, pulp and paper, automotive, transportation, packaging and health services.

Without a doubt, Brazil has undergone a tremendous amount of change and has now gained an improved perception globally. Today, Brazil is recognized for its solid economic fundamentals and its great medium- and long-term outlook, in terms of stability and growth.

Still, it is important to note that there are some challenges involved in doing business in Brazil, at least for the moment. First and foremost, with presidential elections slated for October 2002, Brazil faces an uncertain political future. The new president will inherit a country plagued by elements of corruption, as well as security concerns and a widening social gap. Brazilians will need to vote with these issues in mind.

Moreover, the challenges that have long existed for Canadian exporters and investors continued throughout 2001. These obstacles were various and multifaceted, and included the ongoing bilateral WTO dispute in the aircraft industry, high tariff barriers, a burdensome legal system, considerable bureaucracy, and a difficult customs system.

Nevertheless, Canadian industries have made a great impact on Brazil's economy and its privatization process. Overall, many Canadian companies find that the strong opportunities available in Brazil outweigh the risks, and that Brazil's ability to maintain a strong economy in the medium- and long-term is favourable.

So, when you are planning your next trip to Brazil's beautiful beaches and breathtaking rain forests, be sure to bring along some business cards – they just might come in handy.

Packaging Success

by Shawn Dalrymple

Someone, somewhere, needs to take care of the many logistical elements involved in physically placing a product into its package, and making sure the package can withstand the rigours of travel. You could say that these "someones" are the unsung heroes of product success.

And while there might seem to be little glory in this job, Langen Packaging of Mississauga can attest to the financial rewards. Every year, companies from around the world spend what might seem to be an exorbitant amount on effective packaging for their products. These companies recognize that if even one of their product's packages fails, they have lost a repeat customer. So, in a fierce fight for market supremacy, a lot can be gained from packaging success.

Langen Packaging is a leader in their field, designing and integrating packaging systems from start to finish for nearly 50 years. Their complete and sophisticated turnkey packaging systems are in demand all over the world. They currently have equipment operating in the United States, South America, Asia, Africa and Europe.

Langen, as a member of the Molins Packaging Group, has also set up an on-the-ground operation in São Paulo and Paraná, Brazil. A local presence in Brazil aims to gather a firmer understanding of the community, the people, and the culture. Roney Silveira, Langen's sales manager for Brazil and Argentina, says "We see the country as the second Mexico of Latin America, and we feel our relationship with Brazilian companies can only grow from our presence here. With some obvious exceptions, South American economies are, as a group, doing well. And Brazil is at the top of the list."

Marie-Claude Erian, business development advisor with EDC's Machinery and Equipment Team, believes that Langen's strategy is a sound one. According to Erian, US$500 million is expected to be invested in the Brazilian packaging sector between 2000 and 2005. Of this total, 56 per cent will be directly related to the search for competitive advantages, and the need for better operational systems to reduce costs.

Langen's local presence in Brazil may already be bearing fruit. The company recently sold several units of their machinery to Unilever, Philips, General Electric, and Fujifilm operations in Brazil. Also, machines used to package facial tissue have been sold to Brazil-based Klabin and Melhoramentos, two large forestry companies dealing in pulp, paper, and timber. As a result, last year Langen experienced its highest financial gain since local operations in Brazil began three years ago, with more than $3 million in sales.

However, Silveira is acutely aware that there is no time for complacency. With internal and external competition growing rapidly, Langen needs to stay motivated in terms of technological advancement if they are to remain competitive. "One of the things our clients like best is what we do after the sale," says Silveira. "We have created the capacity to service, retrofit, and expand complementary product lines. Our clientele's needs are always changing, and we have to change with them. To be successful, we have to be more efficient than anyone else, and we believe we are." ■

Langen Packaging of Mississauga, Ontario, has set its sights on Brazil.

Profile

Business: Manufacturer of packaging systems
Established: 1956
Employees: 150
Export business: approximately 85%
Web site: www.langeninc.com

Brazil: An On-the-Ground Perspective

Last year, when EDC opened a Regional Office in São Paulo, Brazil, Claudio Escobar was the obvious choice to head up the endeavour. With nearly 26 years of experience in international trade and business development in the Americas, Claudio is effectively identifying and developing opportunities in the Southern Cone of South America.

In this interview with *ExportWise*, he discusses his role as one of three EDC permanent regional representatives (the others are in China and Mexico), and provides some insight into what Canadian companies can do to prosper in Brazil.

ExportWise (EW): Can you explain your duties as EDC's Regional Director in Brazil?

Claudio Escobar (CE): My most important role in this position is business development – plain and simple. Since I am EDC's key relationship manager for our clients in Brazil, providing on-going service to these clients is paramount, especially during difficult periods. As such, I am constantly looking to identify the many opportunities that exist between qualified buyers in Brazil and Canadian goods and service providers. The end goal is to turn these opportunities into solid leads for our clients.

In looking for these opportunities, I can also gather and provide extremely valuable market intelligence to EDC's operations in Canada. This allows all of us at EDC to be more effective in bringing solutions to our exporters and international clients. By developing strong relationships, and by understanding the business environment, we can more effectively break down roadblocks to exporting.

EW: In your experience, how has the Brazilian business landscape evolved in the past decade?

CE: For many years, the Brazilian economy relied heavily on its internal capabilities in many sectors, including technology,

Economic Overview

by Gregorio Alfonzo

With a GDP of US$600 billion in 2000, Brazil is the largest economy in Latin America and Canada's largest trading partner in South America. Two-way trade between Canada and Brazil has been relatively modest but growing over the years, reaching US$2.6 billion in 2000 compared to US$1.7 billion in 1989.

In October 1998, Fernando Henrique Cardoso was re-elected to a second consecutive term as President of Brazil. The new administration entered into crisis almost immediately, when a maxi-devaluation of the Brazilian currency (the *real*) took place in January 1999. However, sound policy-making created the conditions for economic recovery in 1999-2000 as market sentiment towards Brazil improved. The implementation of structural reforms (supported by the International Monetary Fund), notably the strengthening of state government finances and the regulatory framework of the banking system, following Brazil's forced shift to a floating exchange regime, not only avoided a resurgence of inflation but also contributed to strong growth in 2000.

During the period of 2000-2001, the Brazilian economy was able to sustain growth for eight consecutive quarters. However, since the first quarter of 2001, domestic activity has slowed due to a deteriorating external environment (especially financial stresses in neighbouring Argentina and the slowdown in the U.S. economy), a domestic energy crisis and its negative impact on expectations of higher interest rates, and the depreciation of the *real*.

In order to contain the negative effects of this difficult environment, the government's fiscal and monetary policies have been adjusted in the right direction. Brazil's economic growth for 2001, however, will be lower (one to two per cent) than the 4.5 per cent expected earlier in 2001. In 2002, growth should recover, subject to the provisos that Argentina's difficulties ease, and the U.S. economy resumes its growth track by mid-2002. Furthermore, a normalization of Brazil's climatic conditions would permit restrictions on electricity use to be relaxed, easing a significant constraint on future growth.

> *"Canadians can no longer expect to wave the Maple Leaf and succeed in Brazil."*

environmental services and consumer goods. However, since the country's widespread trade liberalization, Brazil has successfully opened its doors to foreign investment and foreign supply. Brazil's large land mass, rich multicultural society, vast natural resources and infrastructure provided a solid foundation for the global competition that arose when trade barriers were reduced throughout the 1990s.

EW: What do Canadian companies need to understand before entering into this market?

CE: Canadian firms must be aware that Brazil does not have a consistent regulatory environment. The cost of doing business in Brazil goes beyond the mere cost of financing a project – it must also account for high taxes, bureaucracy, and out-dated labour and corporate laws.

Canadians should also note that the Brazilian business culture often calls for a demonstrated commitment to the market by establishing partnerships with local firms. In some instances, Canadian firms may need to become a supplier to an already established Brazilian supplier in the short-term as a means to access bigger business in the long-term. In this sense, the direct route is not always the quickest route to success, so be patient.

EW: What impact have political events in the last year had on Canada's trading relationship with Brazil?

CE: There is no doubt that Brazil became quite a challenging market for Canadian companies during the first two quarters of this year, due to the World Trade Organization case between Bombardier and Embraer as well as the ban of Brazilian beef exports to Canada. In Brazil, there is often no distinction between politics and the business environment, and the level of emotion can have an impact on relationships. Canadian companies must understand these emotions and take steps to minimize their business impact. If done properly, the relationship can flourish and grow in strength.

I think Canadian firms must simply take a different approach to business in Brazil. They can no longer expect to wave the Maple Leaf and succeed. Instead, they must demonstrate that they have a value-added product or service to bring into the mix, and develop a clear and precise positioning strategy, often geared towards specific companies as opposed to sectors. These tactics are the most likely to get positive results.

EW: How can EDC help?

CE: EDC has become a key financial partner to many Brazilian companies. Our range of products and services is solid and unique, and our flexibility and capacity to back long-term projects is hard to match.

Also, our developing relationship with the Brazilian public sector has allowed us to gather better information on regulations and the general investment environment, enabling EDC to provide better data to the Canadian exporters cross-sectorally.

Economically, I think that Brazil is like all other countries and will be affected by the current economic downturn. Therefore, Canadian companies should increase their level of financial due diligence in all of their operations with Brazilian companies. In this sense, EDC's market intelligence and risk mitigation solutions are solid tools for Canadian companies. ■

Contact Info

Brazilian Embassy in Ottawa

Bernardo P. Velloso
First Secretary
Head of the Economic and Commercial Section
bernardo@brasembottawa.org

Majid Abaiian
Trade Promotion Officer (Investment and Trade Inquiries)
mabaiian@brasembottawa.org

450 Wilbrod Street
Ottawa, Ontario
K1N 6M8
Tel.: (613) 237-1090
Fax: (613) 237-6144

Canadian Consulate General in São Paulo

Claude Fontaine
Consul & Senior Trade Commissioner
infocentre@canada.org

Av. Das Naçoes Unidas 12901
Cenu Torre Norte
Andar 16
CEP 04578-000
São Paulo, Brazil
Tel.: (011) 55-11-5509-4321
Fax: (011) 55-11-5509-4260
www.dfait-maeci.gc.ca

DFAIT

Pearl Williams
Trade Commissioner – Brazil and Mercosur
pearl.williams@dfait-maeci.gc.ca

Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: (613) 944-2419
Fax: (613) 943-8806
www.dfait-maeci.gc.ca

Canadian Commercial Corporation (CCC)

Ricardo Chincoli
Project Manager
rchincol@ccc.ca

1100-50 O'Connor Street
Ottawa, Ontario
K1A 0S6
Tel.: (613) 995-9083
Fax: (613) 995-2121
www.ccc.ca

Canadian International Development Agency (CIDA)

CIDA Inc.
Raphael Salituri
Tel.: (819) 997-0542
Fax: (819) 953-5024
raphael_salituri@acdi-cida.gc.ca

CIDA Bilateral
Teresa Pires
Tel.: (819) 994-4439
Fax: (819) 994-4259
teresa_pires@acdi-cida.gc.ca

200 Promenade du Portage
Hull, Quebec
K1A 0G4
Toll free: 1-800-230-6349
www.acdi-cida.gc.ca

Export Development Corporation

Claudio Escobar
Regional Director – Brazil and Southern Cone
cescobar@edc-see.ca

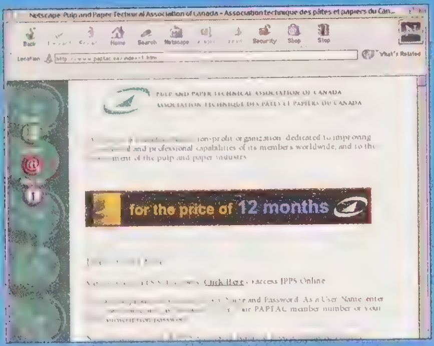
Av. Das Naçoes Unidas 12901
Cenu Torre Norte
Andar 16
CEP 04578-000
São Paulo, Brazil
Tel.: (011) 55-11-5509-4322
Fax: (011) 55-11-5509-4260
www.edc.ca

Dominique Bergevin
Regional Manager – Mexico, Central America and Southern Cone
dbergevin@edc-see.ca

151 O'Connor St.
Ottawa, Ontario
K1A 1K3
Tel.: (613) 598-3271
Fax: (613) 598-2503
www.edc.ca

Forestry and Brazil Information Resources

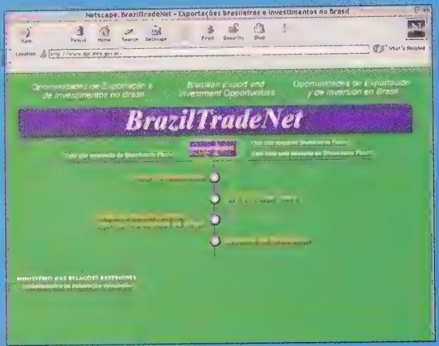
The web sites highlighted below provide valuable information to complement this issue's industry and geographic features: Forestry (page 10) and Brazil (page 20).



Pulp and Paper Technical Association of Canada

www.paptac.ca

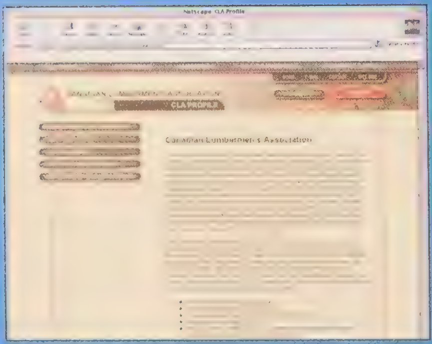
PAPTAC is a Canadian-based non-profit organization dedicated to improving technical and professional capabilities worldwide. Site offers access to methods and data sheets, publications and upcoming events.



BrazilTradeNet

www.dpr.mre.gov.br

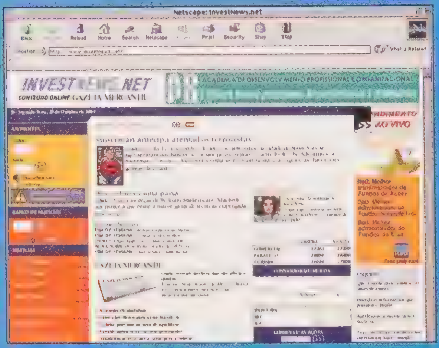
Potential investors in Brazil can access a foreign investor's guide, important addresses, company information, and a listing of trade fairs. Registration (although free) is required.



Canadian Lumbermen's Association

www.cla-ca.ca

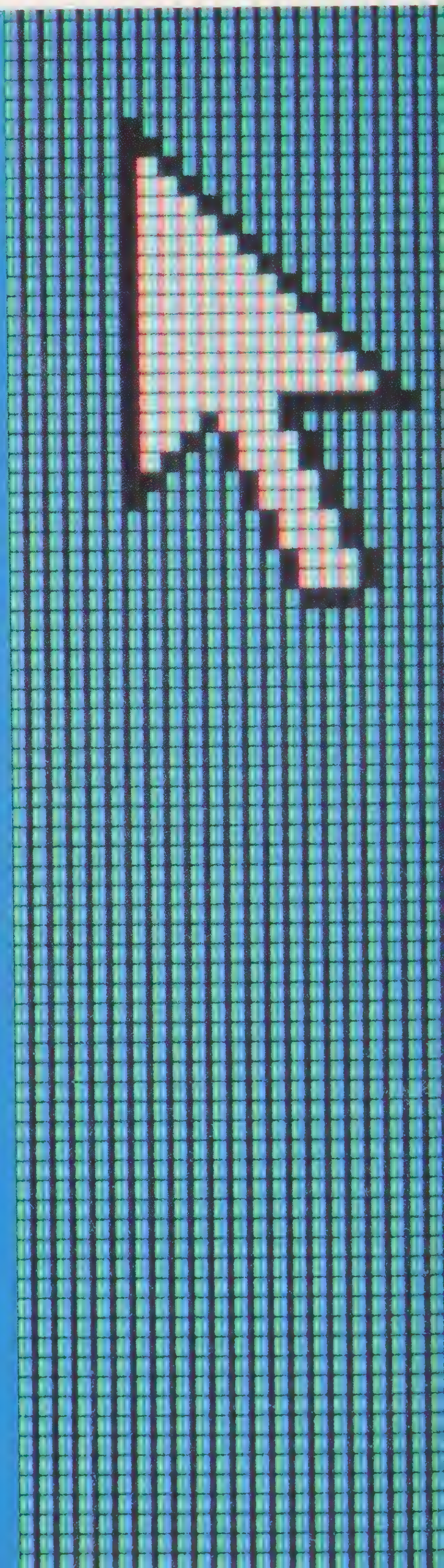
Servicing both the softwood and hardwood lumber manufacturing communities, the site offers industry news, publications and event listings. Also offers useful international, Canadian and American industry links.



InvestNews.Net

www.investnews.net

On-line news briefs from the Brazilian newspaper *Gazeta Mercantil* are available in English, Spanish and Portuguese (click on flags to choose language). Briefs cover economics, business, political and financial news.



How are we doing?

What are your expectations for *ExportWise* – and are we meeting them?

How thoroughly do you read *ExportWise*?

☐ Cover to cover ☐ Most of it ☐ Certain articles only ☐ Don't read it

How often do you read the following types of articles?	Always	Usually	Never
President's Message	☐	☐	☐
Ready, Set, Export (small business section)	☐	☐	☐
Commentary Columns	☐	☐	☐
Inter.net.working (export-related web sites)	☐	☐	☐
Exporter Profiles	☐	☐	☐
Industry Feature	☐	☐	☐
Geographic Feature	☐	☐	☐
Economy Wise (by EDC chief economist)	☐	☐	☐

Do you find *ExportWise*:	Yes	Somewhat	No
Easy to read	☐	☐	☐
Credible	☐	☐	☐
Informative	☐	☐	☐
Helpful guide to EDC services	☐	☐	☐
Good link to other sources of information	☐	☐	☐

Do you use the EDC Calendar? (enclosed with this issue) ☐ Yes ☐ No

Would you prefer to read *ExportWise*: ☐ in print ☐ on-line

What is your overall opinion of *ExportWise*?

☐ Excellent ☐ Good ☐ Fair ☐ Poor

What other types of articles would you like to see covered in *ExportWise*?

____

____

____

Demographic information:

You are a: ☐ Business owner ☐ Public servant ☐ Student ☐ Business professional ☐ Other ____________

Is your business: ☐ Less than $5M in sales ☐ More than $5M in sales

Is your business: ☐ Considering exporting ☐ Already exporting

Thank you!

Fax this page to (613) 598-3080

or complete it on-line at www.edc.ca/survey

ExportWise

Editor
Julie Harrison
jharrison@edc-see.ca

Editorial Assistant
Shawn Dalrymple
sdalrymple@edc-see.ca

Production/Circulation
Deborah Chapman
dchapman@edc-see.ca

Creative Director
Phil Jones
pjones@insight
communications.ca

Translation
Translation from *ExportWise* to *Exportateur avertis* is led by Anne Tanguay, in collaboration with Maguy Robert.

Contributors
Gregorio Alfonzo, Cressida Barnabe, Dominique Bergevin, Brenda Brown, Jane Daly, Shawn Dalrymple, Hassan Eltaher, Claudio Escobar, Wendy Everett, A. Ian Gillespie, John Hunter, Cathy Lynch, Stephen Poloz

EDC Advisory Board
Rosemarie Boyle, Brenda Brown, Donna Choquette, Marc Deschênes, June Domokos, Andrew Douglas, Ruth Fothergill, Linda Graupner, Walt Hutchings, Suzanne Joberty, Leslie Kenway, Diana MacGibbon

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

EDC
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada

EDC SEE

E-mails to the Editor

→ Recently I received a copy of your *ExportWise* Fall 2001 edition. I read it with great interest, particularly the section on Small Business "Surviving and Thriving." The Government of Canada takes the needs of small- and medium-sized enterprises seriously.

The 2.6 million small businesses and self-employed in Canada are a key engine of growth in the Canadian economy, accounting for some 60 per cent of private sector employment and 43 per cent of private sector output.

ExportWise is a useful resource for entrepreneurs who are considering expanding their business opportunities through export.

As a Member of Parliament, I maintain regular contact with local small businesses. I have forwarded a copy of *ExportWise* to each of the members of the Canadian Federation of Independent Business (CFIB) along with survey results, which I send to them quarterly.

I trust that the Small Business people of Oxford will enjoy this publication.

Sincerely,
John Finlay
Member of Parliament for Oxford

→ My client Jack Gin of Extreme CCTV (featured on cover of Fall 2001 issue of *ExportWise*) forwarded a copy of your magazine to me. I enjoyed reading the article "Surviving and Thriving" and have taken the liberty of passing the article along to several of my colleagues. It is a well written publication and I had not seen a copy before. I sent in a subscription request so I will receive future issues. Thanks again, and all the best.

Regards,

Terry D.A. Horton
Sr. Account Manager,
Commercial Markets – Consumer
Greater Vancouver
Royal Bank of Canada

We want to hear from you!

The annual *ExportWise* readership survey is on page 27 or complete it on-line at

www.edc.ca/survey

Tell us what you think
ExportWise welcomes all feedback on articles, as well as suggestions for story ideas. E-mail the editor at: **exportwise@edc-see.ca**.

Change of address
Help us keep our mailing list up-to-date by notifying us on-line at www.edc-see.ca/address.

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at www.edc.ca.

→ Insurance

Accounts Receivable Insurance (ARI) – Covers a Canadian exporter against 90 per cent of export and domestic credit losses (domestic cover provided by London Guarantee Insurance Company) if the buyer can't or won't pay. ARI gives exporters "peace of mind" and access to new working capital by converting an outstanding receivable into a bankable asset, which in turn increases their ability to compete by being able to offer longer credit terms.

Political Risk Insurance – Helps Canadian companies protect their investments abroad, covering up to 90 per cent of losses.

Political Risk Insurance of Loans – This expanded form of Political Risk Insurance offers increased protection for investment loans.

→ Financing

Direct Loan – A financing arrangement between EDC and a foreign buyer, or a foreign borrower on behalf of a foreign buyer, for the export of a Canadian capital good or service. Medium-term export loans involve credit terms greater than two years and turn the exporter's sale into a cash sale.

Line of Credit – EDC has set up pre-arranged lines of credit with foreign banks, institutions, or purchasers, under which the foreign borrower lends the necessary funds to foreign purchasers of Canadian capital goods and services. A full listing of EDC Lines of Credit is available on EDC's web site at: www.edc-see.ca/loc.

Equity Investment – EDC can invest as a subsidiary investor in projects and companies that generate direct, substantial, identifiable, export-related benefits to Canada.

→ Contract Bonding

Bid Security Guarantee (BSG) – Protects banks from any calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – Protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – Indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

Direct Surety Bond Support – By providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

→ On-line Services

Market Intelligence: www.edcinfo.ca/e-reports – EDC's Economic Reports monitor political and economic events and gauge opportunities in more than 200 markets. This service is available at no charge to EDC customers and is also available through an annual subscription.

EXPORT *Check*: www.edcinfo.ca/exportcheck – For as low as $60, Canadian companies can find out whether EDC considers their foreign buyer insurable for a specific transaction as well as some key summary credit and financial information. For more details about the buyer's credit and financial history, a Dun & Bradstreet Business Information Report can also be purchased.

EXPORT *Protect*: www.edcinfo.ca/exportprotect – Canadian exporters can insure a single transaction of up to US $250,000. If a foreign buyer is in EDC's database and is considered insurable for the transaction, coverage is available immediately through a quick on-line application process.

e-Performance Security Insurance: www.edcinfo.ca/bonding – Exporters can now apply, accept and pay on-line for EDC Bid or Performance Security Insurance (see Contract Bonding).

→ Small Business

Small Business Accounts Receivable Insurance – Accounts Receivable Insurance protects an exporter's outstanding receivable assets. EDC will insure export and domestic sales and if a buyer can't or won't pay, policyholders can make a claim for up to 90 per cent of the outstanding receivable with minimum administrative requirements. You can call 1-800-850-9626 to speak with an underwriter and put coverage into place over the phone.

Master Accounts Receivable Guarantee (MARG) Program – EDC can help smaller exporters obtain up to $500,000 in additional working capital from their bank by guaranteeing the operating line which is secured by all of the exporter's foreign accounts receivable.

NorthStar Trade Finance – This public-private sector partnership provides fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions.

Simplified Contract Bonding – A streamlined application/approval process has been developed for SMEs who require contract or surety bond guarantees.

Pre-shipment Financing – To help finance the pre-shipment working capital needs of smaller exporters, EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

Export Outlook *Unusually Uncertain*

The global economic outlook hinges on a key intangible – the psychological impact on consumers of the September 11th terrorist attacks. Exporting companies should hope for the best, but be prepared for the worst.

by Stephen S. Poloz

Never has the economic outlook seemed so uncertain. A world economy that was already dealing with a long list of frailties was dealt an unimaginable blow on September 11, 2001.

The economic implications of this confluence of events are impossible to predict. The reason is that the psychological impact – and therefore the effect on consumer confidence – cannot be quantified. The shock is without precedent, and the behaviour of confidence relative to economic fundamentals is always uncertain in any case. To make an economic forecast from such an unprecedented starting point is, essentially, to assume an answer.

Confidence is key to the economic outlook because economic growth is driven primarily by spending decisions, and consumers spend about two-thirds of the total. The linkage between income and spending can be altered significantly by a shift in confidence. Under normal conditions, one dollar in income can support close to a dollar in spending, assuming a small portion is saved. But if the consumer is confident about the future, that same dollar might generate $1.20 in spending (with increased borrowing adding to purchasing power) and the economy will boom (like 1999 – early 2000). In contrast, a consumer with low confidence might only spend $0.80 of his or her dollar in income and save the rest, leading to a widespread, confidence-induced slowdown, like 1991.

Confidence has declined and could decline further in the wake of the terrorist attacks, but we have no idea how far, or for how long. One possibility is what happened after the bombing of the World Trade Center in 1993: the consumer confidence index fell by about 25 per cent during the following four to five months, stabilized, and then snapped back. As an alternative, consider what happened during 1990-1991: confidence fell by about 50 per cent in 1990, and really only moved up decisively beginning in late 1993.

Business planning is difficult in these circumstances. One way to deal with such uncertainty is to construct alternative scenarios to stress-test your business plan. To help in this, EDC's Fall *Global Export Forecast** presents two possible scenarios: one based on the sort of confidence behaviour observed during 1993 (Case A), and another based on the sort of behaviour witnessed during 1990-1991 (Case B). Our hope is that these two scenarios will encompass the actual outcome, and that it will be possible to narrow the possibilities as the fourth quarter unfolds.

Under Case A assumptions, we would expect 2002 to be a better year than 2001 for Canadian exporters, although recovery would be delayed relative to our previous forecasts. After declining by about four per cent this year, export sales would rise by around one per cent in 2002, ending the year on a much stronger note. Areas of strength would include agri-food, forestry products, ores and metals, and consumer goods. Soft areas where recovery would be slower would include aerospace, other transportation equipment, telecommunications equipment, motor vehicles and energy.

Under Case B assumptions, the outlook would be much darker. World recessionary conditions would persist until mid-2002, and it would be mid-2003 before the global economy would normalize. Global GDP growth would average only 1.8 per cent in 2001 and 2.6 per cent in 2002, versus 2.2 per cent and 3.4 per cent under Case A assumptions. Canadian export sales would shrink by eight per cent in 2001 under these assumptions, and a further seven per cent in 2002, although the second half of 2002 would see a resumption in growth. Under this scenario, all sectors would see a deeper sales contraction, although agri-food, consumer goods and some categories of machinery and equipment would probably still see modest growth in 2002.

The bottom line? Unfortunately, there is no bottom line at the moment. Consensus expectations are currently closer to Case A than Case B, probably because American consumers have demonstrated considerable resilience during the past 12 months, and may continue to do so. Only time will tell. For now, exporting companies should plan for a flat year in 2002, but be prepared for a recession year. ■

Stephen Poloz is EDC's vice-president and chief economist. He can be reached at spoloz@edc-see.ca.

*EDC's Fall 2001 *Global Export Forecast* is available on-line at www.edc.ca.

EDC Contacts

Companies with annual export sales of up to $1 million can call our team of SME specialists at

1-800-850-9626

Companies with annual export sales exceeding $1 million can call

1-888-332-3777

to be automatically connected to the regional office nearest you.

Western Canada

Vancouver:
Blair Wilson
Business Development Manager
Tel.: (604) 638-6950
E-mail: bwilson@edc-see.ca

Calgary:
Bruce Stanton
Business Development Manager
Tel.: (403) 537-9800
E-mail: bstanton@edc-see.ca

Edmonton:
Karen Goss
Business Development Manager
Tel.: (780) 702-5233
E-mail: kgoss@edc-see.ca

Winnipeg:
Lewis Megaw
Business Development Manager
Tel.: (204) 975-5090
E-mail: lmegaw@edc-see.ca

Ontario

Toronto:
Ruth Fothergill
Regional Vice-President

Laura Gainer
Business Development Manager
Tel.: (416) 640-7600
E-mail: lgainer@edc-see.ca

David Little
Business Development Manager
Tel.: (416) 640-7600
E-mail: dlittle@edc-see.ca

London:
Lillian Gagnon
Business Development Manager
Tel.: (519) 963-5400
E-mail: lgagnon@edc-see.ca

Ottawa:
Michel Parent
Business Development Manager
Tel.: (613) 597-8688
E-mail: mparent@edc-see.ca

Quebec & Atlantic Canada

Montreal:
Harold Riley
Business Development Manager
Tel.: (514) 908-9200
E-mail: hriley@edc-see.ca

Quebec City:
Jean-François Renaud
Business Development Manager
Tel. : (418) 266-6130
E-mail: jrenaud@edc-see.ca

Halifax:
David Surrette, Regional Director for Atlantic Region
Tel.: (902) 442-5205
E-mail: dsurrette@edc-see.ca

Moncton:
David Surrette, Regional Director for Atlantic Region
Tel.: (506) 851-6066
E-mail: dsurrette@edc-see.ca

St. John's:
Darrell Spurrell
Business Development Manager
Tel.: (709) 772-8808
E-mail: dspurrell@edc-see.ca

International Representation

Mexico:
Marvin Hough
Regional Director for Mexico & Central America
Tel.: (011) 5255-5387 9316
E-mail: mhough@edc-see.ca

Brazil & Southern Cone:
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel.: (011) 55-11-5509-4320
E-mail: cescobar@edc-see.ca

China:
Alison Nankivell
Regional Director for China
Tel.: (011) 86-10-6532-3536, ext. 3357
E-mail: anankivell@edc-see.ca

Export Development Corporation
Head Office
151 O'Connor
Ottawa, Canada K1A 1K3
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On-line and *On Track*

By 2004, some predict that half of all export transactions will be handled over the web. As a result, many companies are positioning themselves to provide the support and products their customers need to adapt to this new way of doing business.

At EDC, we launched our web site in 1996 to share information on our products and services with our customers. Since then, we have been working to enhance the information we provide and build a transactional site where customers can conduct some of their business with EDC on-line.

To this end, we established a dedicated eBusiness team in 2001 and charged them with the responsibility of developing a world-class site capable of delivering efficient and cost-effective on-line services. We believe that building our web capabilities will allow us to enhance customer service, extend our reach and presence in developing markets, bring our trade expertise closer to customers and partner with other trade information specialists to provide streamlined services.

One of our first steps was to establish EDC Direct, the customer-only section of our web site. This offers preferential access to our international market intelligence, including the ability to custom-order updates on the information you are interested in. And through the Receivables Insurance Centre, our accounts receivable insurance customers can conduct virtually all of their credit approval activity on-line, with answers often available on the spot.

We recently launched our first web-based products, EXPORT *Check* and EXPORT *Protect*. EXPORT *Check* combines an international database of 64 million companies in more than 100 markets with EDC's automated insurability model, which we use to make thousands of insurability decisions each year. For as little as $60, Canadian companies can find out if we consider their buyer insurable for the amount of the deal. EXPORT *Protect* allows companies to insure a single transaction of up to US$250,000 against non-payment by foreign buyers in 30 key export markets.

We have also web-ified some of our existing products such as providing Wrongful Call coverage on-line, which provides insurance coverage if you or your bank is worried that your buyer might make an unfair call against your bonds or guarantees. In addition, our economic expertise has been packaged into an on-line product called Economic Reports, which allows subscribers to monitor the political and economic developments in more than 200 markets and receive automatic notification when reports they are most interested in are updated.

A. Ian Gillespie
President and Chief Executive Officer

All of these initiatives are part of our strategic vision as we move forward. Our goal is to make our processes simple, speedy, efficient and, most of all, relevant to your needs. Soliciting your feedback regularly will help ensure that we are meeting your on-line requirements – both for today and in the future.

So stay tuned and stay connected to www.edc.ca. ■

A. Ian Gillespie, C.I.T.P

photos courtesy of Cowater International

Spring 2002

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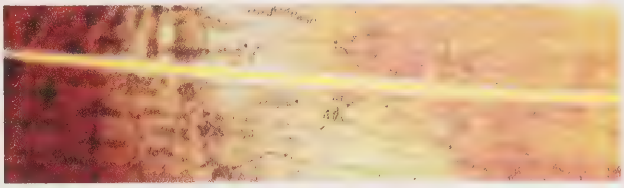

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Ottawa, Ontario K1B 3V9

Self-insurance or Self-delusion?

the perils of unsecured accounts receivable

By [illegible]

Some Canadian exporters risk financial ruin with each uninsured shipment, says EDC's chief underwriter and vice-president of short-term insurance, Keith Milloy. "A company that chooses not to insure its accounts receivable risks losing everything. Self-insurance [illegible]."

They are the experiences that savvy entrepreneurs have learned from but now generally refuse to discuss: when a sweet deal turned sour, and non-payment from a large sale left the business on the verge of bankruptcy. Unable to collect, uninsured, and without the money to pursue an expensive civil suit, these entrepreneurs had to scramble to stay solvent.

Rodger Cameron is one of the lucky ones – he and his company, Cameron Seafood Ltd., managed to survive a substantial loss. Several years ago, a Belgian client went into receivership, and Cameron was out $16,000. "I'd been exporting for less than a year," Cameron remembers, "and every cent was vital."

The loss interrupted his cash flow and darkened his mood. "I was as nervous as a cat around my other clients, afraid they might be late with a payment," Cameron recalls. "My customers could see I was stressed, and that wasn't good for business, either." Cameron says the experience taught him a valuable lesson about the perils of self-insurance.

Today, Cameron Seafood has clients in 10 countries and annual sales of more than $5 million. The company protects itself with accounts receivable insurance from EDC.

Protection options

Typically, a company has three options when it comes to protecting its accounts receivable. It can:

- Do nothing and hope buyers pay;
- Self-insure, i.e. set aside money to offset a potential loss; or
- Buy a policy from an insurance company or from EDC.

Each option comes with its own risks and rewards. Most companies choose to do nothing. Credit card transactions provide some protection; a business forfeits a set percentage of each sale to the credit card company in exchange for prompt payment. But an over-reliance on credit card sales can limit a company's ability to offer more flexible credit terms, and that can mean lower sales or fewer customers. Self-insurance ties up capital that might otherwise help a business expand, and entrepreneurs hate to pass up an opportunity to grow their businesses. Increasingly, a growing number of companies are recognizing accounts receivable insurance as the most attractive option.

Insurance as a vital part of growth strategy

"It's all about liquidity," says David Hood, chief executive officer of Hemera Technologies. "With EDC insurance, our accounts receivable are considered by us – and by our bank – as liquid assets, as capital that enables us to continually expand our business. Like it or not, growth takes cash."

Hemera, based in Hull, Quebec, is no stranger to expansion. Since it began operations in 1997, gross sales have doubled annually. The company created quite a splash with its first product, NetGraphics Studio, a software package that enables amateur and professional web designers to create high-quality images without using vast amounts of bandwidth. The success of this product has allowed Hemera to move into the

illustration market, and aggressively sell outside North America.

With a staff of 85 at its headquarters and a spiffy new regional sales office in Seattle, Washington, the company can't afford to be cash-poor. And while the United States accounts for the vast majority of the company's export sales, Europe and Asia are also showing significant growth.

Hemera sells its products three ways: over the internet, through other equipment manufacturers (some Hewlett-Packard scanners, for instance, feature built-in Hemera software) and through a network of distributors. EDC insures its sales to distributors.

"By the time we receive payment for a shipment we made three months ago, we've usually shipped already two or three times that amount, and our cash flow could look a bit wobbly to our creditors," says Hood. "Thanks to EDC, we avoid that problem."

EDC offers a variety of accounts receivable policies, ensuring that companies receive 90 per cent of the value of a sale should a client default on a payment or fall into bankruptcy.

A Canadian bank typically lends money against receivables according to their value and origin. For Canadian accounts, banks will generally lend up to 75 per cent of the value of receivables; for American accounts, it's generally up to 50 per cent. Most banks won't lend money against receivables from other countries – a substantial impediment for cash-poor companies seeking to boost sales and establish new markets.

If the receivables are insured, however, a bank will lend up to 90 per cent of their value, regardless of where the goods are headed.

Peace of mind or competitive advantage?

One of EDC's newest clients relies on accounts receivable insurance for an entirely different purpose – competitive advantage.

GasTOPS is a 22-year-old firm known for pioneering diagnostic techniques for gas-turbine control and monitoring systems.

"Originally, we had made a name for ourselves as a supplier of services," says chief financial officer Nancy Lawless. "Over the years, our people created readily-marketed innovations that led us to shift our focus towards manufacturing."

The Ottawa-based firm began building control and monitoring devices for a range of applications in defence, marine transportation and power generation.

"At that time, accounts receivable insurance wasn't an issue," says Lawless. "Most of our clients were in the public sector and tended to pay their bills on time."

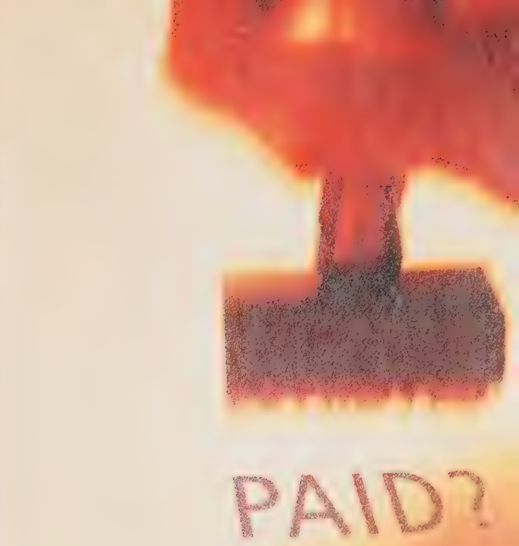
But when GasTOPS executives met last year to reconsider the company's business plan, they detected a potentially dangerous flaw: the company's growing export sales exposed it to greater risk.

Lawless recalled that her bank manager had once mentioned something about EDC insurance, but she hadn't paid much attention at the time. When a GasTOPS marketing executive started describing the competitive advantages, however, she took notice.

"He explained that it would enable us to commit to a customer more quickly," recalls Lawless. "EDC performs credit checks speedily and accurately, so we can concentrate on filling orders rather than verifying credit. EDC is also known and respected worldwide, which reflects positively on us."

GasTOPS products can be found on naval vessels worldwide, in servicing equipment for F/A-18 fighter jets in Canada, Malaysia and Australia, and in power-generating plants in the United States, Europe and Brazil. With EDC insurance, the company is moving aggressively into other markets.

Lawless says that with recent financial crises in places such as Argentina, Ecuador and Russia, GasTOPS executives recognize that even governments backed by national banks are no longer without risk. "We certainly don't want to be a victim," says Lawless, sounding very much like an entrepreneur who's immune to the self-delusion of self-insurance. ■



Canadians not so cautious when it comes to accounts receivable insurance

Canadians are stereotyped as conservative folk, risk-averse and over-insured. The facts, however, indicate that most Canadians play relatively fast and loose with their accounts receivable. Europeans, for instance, are more likely to insure their accounts receivable. According to Keith Milloy, EDC's chief underwriter and vice-president of short-term insurance, only 10 to 15 per cent of Canadian firms insure receivables, compared with 25 to 30 per cent of European firms.

"If you look at a typical company's balance sheet," says Milloy, "its assets – the building, the equipment, the vehicles – are insured. But often the most important asset of all – its accounts receivable – is not insured. And when you consider that the premiums are relatively inexpensive, averaging less than 0.3 per cent of the value of the receivables, it's shocking that companies would choose to live so dangerously. They may be only one unpaid invoice away from financial ruin."

Small- and medium-sized businesses are responsible for most of Canada's economic growth and account for 85 per cent of EDC's clients for accounts receivable insurance. Milloy believes that more and more entrepreneurs will come to recognize the competitive advantages – and peace of mind – provided by EDC insurance. ■

Helping You *cover your bases*

By Brenda Brown

Smaller exporters often face three key challenges when playing the export game:

1. Your buyer wants you to post a bond guaranteeing your performance or to secure your advance payment.

2. You are worried your buyer won't [illegible]

3. You need more mon[illegible] expenses relate[illegible] paid, becaus[illegible] pay or m[illegible] progr[illegible]

[illegible] of [illegible] ases.

Rounding out a second

Challenge

You've got a deal in the making but will be tight on working capital because your buyer is demanding short-term credit and/or flexible terms with no progress payments. This means you have to carry all of the costs until you actually get paid.

Solution

With our Pre-shipment Financing, we guarantee up to 75 per cent of the loan made by your bank. This means the bank is protected, so you get greater access to working capital. More working capital means you can take on more business.

Bases loaded

Challenge

One of the risks of doing business abroad is that there is always the possibility that your buyer won't pay. Because of that concern, your bank may not give you access to all of your operating line. This means you're short on cash, can't pay your suppliers or employees, or take on more business.

Solution

We provide Accounts Receivable Insurance which gives you "peace of mind" and access to more of your operating line because the bank knows any losses (up to 90 per cent) will be covered. This also means you can offer your buyer more flexible credit terms.

Getting to first base

Challenge

Your buyer wants a bond before doing business with you. You can get a letter of guarantee from your bank or a surety bond from a surety company. Unfortunately, with a letter of guarantee, your buyer can demand payment from the bank at any time, for any reason, and the bank must pay. A surety bond is a little less risky because a buyer has to prove you haven't lived up to your obligations before receiving any funds under the bond.

Solution

We can help you get bonds from both banks and surety companies. Basically, we provide a Performance Security Guarantee to your bank so their losses are covered 100 per cent if your buyer makes any call against your letter of guarantee. With a surety bond, we re-insure the surety company which means, in effect, we share the risks.

Players Tell All

EXPORT DEVELOPMENT CANADA

RING 2002

When the big boys come to play

When one of the big boys comes to town and offers to let you in on the game, one of the first things you need to prove is that you have the financial savvy to carry it off. This is the situation that Kevin Fitzgerald, president and chief operating officer of Montreal-based MDS Aero Support, a world leader in the supply of engine test facilities and test systems for aviation and industrial gas turbines, has found himself in more than once.

"Payment terms in larger projects can be tough and that can mean several months where cash flow is tight. We brought EDC's Pre-shipment Financing to our bank, HSBC Bank Canada, and they were very enthusiastic because it acts as a bridge between what they felt comfortable financing through our line of credit and what we needed to maintain our cash flow."

Anthony Esposti, HSBC's manager of business development, said that EDC's products, because they are backed by a large international institution with a strong trade focus, often strengthen the bank's product offerings to its customers.

"We do a great deal of work with exporters and we see pre-shipment financing from EDC having great application for companies growing faster than their capital base permits," says Esposti. "It gives banks a comfort level they might not otherwise have without EDC's involvement and I predict it will be particularly useful in the manufacturing sector."

Guaranteeing your performance

Even when your customers are "blue chip" and you have every confidence you will be paid, cash flow is still a concern. This is a situation Jill Anderson, president of Aecometric Corporation, a Richmond Hill, Ontario company specializing in the design and supply of industrial combustion equipment, is all too familiar with.

"Many companies demand a 10 per cent cash holdback when you supply to a large project. This means you can wait up to three years to get that 10 per cent. This is often a good part of our profit so we can't afford to wait that long."

The solution, Anderson says, was EDC's Performance Security Guarantee. With this type of bonding support, she can issue a 10 per cent guarantee to her buyer and get paid now. EDC issues a guarantee to the bank protecting it against any calls made on the letter of guarantee it provides to the buyer. Because the bank is fully protected, they will give you more access to your working capital.

A winning play

Before Richard Legault, president of Montreal-based Helimax Energie, would consider taking on a major feasibility study for a wind energy project in Mauritania, Africa, he wanted a full slate of EDC products on his side – a Performance Guarantee, Wrongful Call Insurance and Accounts Receivable Insurance.

"This is not a case where my buyer demanded a bond, or my banker wanted insurance to protect against my buyer not paying. Rather, we were looking fo[r a] proactive way to reduce our risks."

To cover his bases, Legault used a Performance Security Guarantee. With this type of bonding support, EDC issues a guarantee to your bank protecting it against any calls made on the letter of guarantee it provides to your buyer. Because the bank is fully protected, they will give you more access to your working capi[tal].

He also used Performance Security Insurance (also called Wrongful Call Coverage), which covers up to 95 per cent of your loss if your buyer makes a demand against your letter of guarantee without reason. You are also covered if your buyer demands payment when things happen outside your control, such as war, or your import/export permits are cancelled.

To round things out, Legault also used Accounts Receivable Insurance to cover up to 90 per cent of his loss if his buyer doesn't pay.

More reasons to do business with EDC

- → Need receivables insurance fast? If you have yearly export sales of less than $1 million, call one of our experienced small business underwriters at 1-800-850-9626 and get coverage over the phone.
- → Want to know more about small business financing options? E-mail our Small Business Financing Services team, smallbusinessfinancialsolutions@edc.ca.
- → Only want to insure one transaction? Check out EXPORT *Protect* at www.edc.ca, where you can insure a single transaction of up to US$250,000.
- → Want to check out your buyer? Use EXPORT *Check* at www.edc.ca, which combines an international database of some 64 million companies in more than 100 markets with EDC's on-line automated insurability model.
- → Want to know if you're ready to export? Try EXPORT *Able?*, an on-line tool at www.edc.ca, to help you answer this question.
- → Are you concerned your buyer might unjustly demand payment on your bank letter of guarantee? Check out EDC's Wrongful Call Coverage on-line at www.edc.ca.

BRIBER *Beware*

With Canadian criminal law and the international community tightening the reins on corruption, businesses around the world can expect more fair play in the global business arena of the future. That's good news for Canadian exporters.

By Melez Massey and Toby Herscovitch

The strong anti-corruption position of the World Bank and similar initiatives of other world bodies are increasingly exposing bribery in an effort to control it. The 29 country members of the Organization for Economic Cooperation and Development (OECD) are all party to a Convention that commits them to criminalizing the bribery of foreign public officials in their domestic laws.

As an offshoot of the OECD Convention, export credit agencies like EDC have all agreed to seek anti-corruption declarations from clients, and to refuse to provide support or to indemnify claims where there is evidence of bribery in a transaction.

In Canada, the corruption of foreign public officials was made an indictable criminal offence on February 14, 1999. In essence, Canada's *Corruption of Foreign Public Officials Act* creates three separate criminal offences: the bribery of foreign public officials, the possession of the proceeds of such bribery, and the laundering of those proceeds. Offences may result in imprisonment for up to 10 years and/or fines up to $50,000.

With similar tough new measures in many parts of the world, the idea that it may be acceptable to pay off local public authorities in some countries to win business is quickly being discredited. In addition, many countries have entered into mutual assistance agreements that oblige their police forces to investigate allegations of bribery brought to them by other countries. Overall, the international attitude towards bribery is moving from acceptance and tolerance to abhorrence and prohibition. ■

Five questions to help you avoid corruption in foreign deals.

→ *Does your agent/counter-party/supplier have a good reputation?*
A discreet inquiry by your local lawyer or agent may save a great deal of difficulty.

→ *Is the jurisdiction in which you operate known for corruption?*
If so, you should be prepared to reject any improper overtures and also categorically instruct your agent, if you have one, to do so. Transparency International's Index (www.transparency.org) is a well-known indicator. You may also wish to speak with the Canadian Embassy in the country concerned.

→ *Do the business numbers make sense?*
Look for any unexplained payments or numbers that do not add up. They may be indications of irregularity.

→ *Have you clearly said "no"?*
Failure to say "no" clearly and definitively could lead to the misunderstanding that your company might consider providing loans, rewards, or benefits of other kinds to a foreign official to obtain business.

→ *Are others informed about your anti-corruption policy?*
You should clearly inform agents and all employees, especially those working outside Canada, in writing, of your company's unwavering anti-corruption policy. You should require them to acknowledge this policy in writing and to refer troublesome situations to your head office for direction.

The following site will lead you to more information about the Canadian law and other international aspects of bribery: www.dfait-maeci.gc.ca/tna-nac/social-e.asp#bribery. ■

Melez Massey is assistant general counsel at EDC and can be reached at mmassey@edc.ca.

Everyone's Trading Up

In spite of what some of the nay-sayers would have us believe, the Doha agreement for a new round of WTO negotiations will be good for both the North and South.

By Mark Drake

Hoping perhaps for my early death from apoplexy or at the very least for my conversion, a left wing acquaintance recently gave me a 400-page book: *Anti-capitalism: A Guide to the Movement.* The book is a scary compendium of selected half-truths and biased mis-information. "Capitalism has outlived its usefulness," writes one Emma Bircham in the introduction, and the anti-globalization movement is looking for a "fundamental change in society."

This dubious vanguard of change is comprised of "trade unionists, socialists, anarchists [sic!], environmentalists, human rights activists, religious campaigners." Not surprisingly, the business community has been excluded from this crowd. Business people know the horrific statistics about north/south inequality as well as anyone, and we accept that capitalism is not a perfect solution. However, the track record for alternative interventionist systems like socialism (let alone communism) is – to say the least – spotty.

The business community creates wealth. And clearly wealth has to be created before it can be distributed. We believe that free trade in open markets is the best way to achieve significant improvements in health, education and living standards around the world, as confirmed by a recent World Bank report.

We should all therefore be pleased that WTO delegates in Doha agreed to a new round of talks, and one which will take full account of the developing world's concerns. Especially important is the undertaking by wealthy countries to take a serious look at eliminating export subsidies and at improving market access for imports in agriculture, textiles and other sensitive areas. For good reason, this will be known as the "Development Round."

Bearing in mind the anti-capitalist forces out there, what can we in the business community do to support this WTO initiative, which, according to *The Economist*, is "a big win for poor countries"? Here are some suggestions:

→ As business people, we can be proud of our own record as creators of wealth, providers of jobs, payers of (substantial) taxes and thereby funders of education, health, social programs and development aid.

→ We must show leadership in our own organizations by managing them in a sustainable and environmentally and socially responsible way.

→ We can encourage good economic governance in the developing world – important if trade (and aid) is to be truly effective. Maybe our skills and example can help stamp out those inhibitors of economic growth: creaking infrastructures, sclerotic bureaucracies and endemic corruption.

→ Let us, in summary, make a strong case for capitalism – the best way we have discovered so far to improve living standards around the world.

"We are winning," says Bircham of the fight against capitalism, "we've got them on the run." For everyone's sake – including the developing world – we have to prove the nay-sayers wrong.

Mark Drake is president of Corsley Inc. and can be reached at corsley@sympatico.ca.

The views expressed in Commentary columns are those of the author and are not necessarily held by EDC.

Making Water *Pure and Simple*

Cowater International Inc. (www.cowater.com) combines low-cost water and sanitation systems with grassroots training programs to foster long-term solutions in some of the world's poorest communities.

By Julie Harrison

"Fifteen per cent of Africa's sub-Saharan children die before the age of five, and often the reason is dehydration due to diarrhea, caused by unclean water," says Andrew Livingstone, vice-president of Cowater's Water, Sanitation and Environment Group. "And all these deaths are preventable."

Prevention of needless death is precisely the aim of the company's current $10 million project in Malawi, a small country in south-central Africa. The six-year, CIDA-sponsored project was launched in 2000 and focuses on two districts in southern Malawi, to serve approximately 400,000 rural community residents.

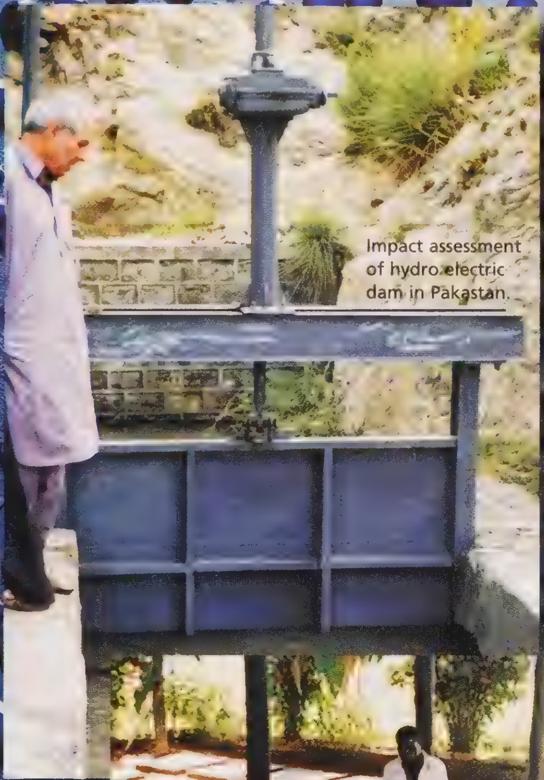
A clean supply of water can usually be established quickly and easily, according to Livingstone. Ensuring a stable, long-term supply, however, is often much more difficult. "Over the long term, a community must maintain its water system and make behavioural changes in such areas as hygiene and sanitation," he notes.

"Cowater creates long-term solutions by relying on simple and robust technologies such as sand filtration and hand-operated pumps," explains Livingstone. "Local companies are contracted to do the construction and field work, which helps keep costs down and ensures the systems can be maintained by people in the community. As the systems are put in place, we provide training in system operation and maintenance management, as well as sanitation and hygiene practices to foster the kind of behavourial changes needed to ensure long-term success."

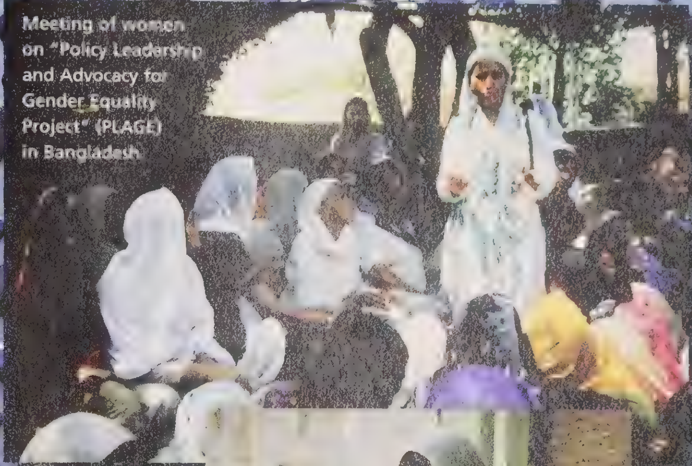
While human survival depends on a reliable supply of clean water, ensuring the long-term health of an impoverished community often requires other improvements. In addition to the Water, Sanitation and Environment Group headed by Livingstone, Cowater has an Accountability Group and a Social Development Group. The former provides financial management and audit training to government employees and Offices of Auditors General to improve decision-making, maximize program efficiency and foster accountability; the latter focuses on mobilizing all members of a community – with a particular emphasis on gender equality and poverty reduction. Cowater's powerful, multidisciplinary approach has led to a string of successful projects.

According to Livingstone, multi-faceted projects are often the most rewarding – and the most difficult. "For example, Malawi is one of the poorest countries in the world, and it is hard for citizens to participate in new projects due to poverty. The problem is compounded by HIV/AIDS, which now affects approximately 15 to 20 per cent of the population of southern Africa. So while you work to mobilize and train members of a community and its government over four or five years, some of them inevitably die from AIDS," explains Livingstone.

HIV/AIDS wasn't an issue when Livingstone began his career in the field of rural water and sanitation more than 25 years ago. Accompanied by his wife and four children, Livingstone lived and worked as an independent consultant in five Asian and African countries. Over the years, he



Impact assessment of hydro electric dam in Pakastan.



Meeting of women on "Policy Leadership and Advocacy for Gender Equality Project" (PLAGE) in Bangladesh.

In Pakistan, improved water supply greatly reduces infant mortality rates.

Community construction of sanitation facilities in rural Ghana.

Community group assisting in planning of water supply project in Nepal.

Newly constructed gravity water system in Nepal.

heard more and more about an innovative, successful company called Cowater. Its excellent reputation led him to accept a position to run the company's Water, Sanitation and Environment Group.

Cowater's 17 years of experience in international development doesn't guarantee steady work – for most projects the company competes against dozens of others. And the bidding process can be painfully long, according to Kenneth Dye, vice-president of the company's Accountability Group and former Auditor General of Canada. "You need a lot of patience. For instance, I've been chasing a project in Pakistan for more than six years," says Dye.

Bidding on projects is also an expensive process. "Each proposal costs approximately $15,000-$35,000, and involves up to six weeks of preparation and at least one visit to the project site," Dye explains. With that kind of front-end investment, it's no surprise that Cowater follows a precise method to prepare bids. It's a method that produces impressive results, as the company wins 50 per cent of the competitions it enters. "It's a big stress, to keep winning projects and keep the pipeline full of work so that our people are engaged," says Dye.

Ensuring a steady flow of projects is just one of several challenges facing the growing company. "We started with a staff of four in 1985 and tried to grow slowly and build capacity gradually. Today, with a permanent staff of 40, we're not really a small company anymore, but we're not big either," says Livingstone.

"As a result, it can be a challenge when we try to leverage money from the bank to provide advance payment and performance guarantees, which are mandatory requirements for suppliers at the start of many projects. Generally,

A newly installed water pump will provide a source of clean water to all residents of this village in Ghana.

our bank would freeze an equal dollar portion of our line of credit in order to issue these guarantees, thereby reducing our working capital. Thanks to EDC Performance Security Guarantee (PSG) program, the bank receives 100 per cent coverage, via a letter of credit, on the funds required to secure these advance payment and performance guarantees, and our full line of working capital remains available to us. That enables us to control our growth."

What Cowater may lack in size, it more than makes up for in impact in communities from Bangladesh to Bosnia, Malawi to Mongolia, and Peru to the Philippines. The company stands as a shining example of how Canadian expertise can effect positive change in underdeveloped countries around the world. ■

The Cowater Flush-tank and Haul System

Flip through the photos of Cowater's 15th anniversary party and you'll spot an unusual sight alongside the tuxedos and gowns – a toilet. Perhaps it's not so unusual when you consider that this particular toilet, which flushes on half a litre of water, has been a major contributor to the company's success and is now responsible for 25 per cent of its total revenue.

The consulting company moved into the field of invention in 1989 to meet the needs of remote Alaskan communities, where water and sanitation systems ranged from a simple two-dollar pail to outrageously expensive pipes designed to withstand severe cold. Thanks to Cowater's innovative full-service water and sanitation system, many communities now enjoy, for the first time, flush toilets, bathtubs, showers and running water to their kitchen sinks.

Each house is provided with an interior water holding tank and an exterior superinsulated sewage tank, while water points are developed or upgraded and sewage disposal sites are engineered and constructed. When the exterior sewage tank is full, it is easily hauled away by snowmobile or all terrain vehicle to the disposal site. Most communities will choose to hire a haul operator, which creates long-term employment in the village.

The end result is a secure supply of clean water and an environmentally friendly method of treating sewage – all at one-quarter the cost of a conventional pipe system. ■

The Environmental *Goods and Services Industry*

by Glen Hodgson and Paul Stothart

Providing a clear snapshot of the environmental goods and services industry both globally and within Canada is a challenge. There is no internationally accepted definition on the bounds of the industry, and as a consequence some goods and services that help to produce a cleaner environment may be captured in other categories. It is generally agreed, however, that the environmental market includes spending on goods, services and projects in the following areas:

- Water and waste water treatment
- Solid waste management
- Improvements to industrial efficiency
- Environmentally related construction
- Clean energy and energy efficiency
- Air pollution abatement
- Environmental management and advisory services

Because of the challenge in defining the industry, a range of estimates exist as to the size of the global market. In general, the annual global market demand is very large – in the US$500 billion to US$1 trillion range. It is generally agreed that industrial countries constitute up to 80 per cent of the existing environmental market, but that the market in developing countries is growing more quickly – 10-12 per cent annually.

Canadian Potential

With some exceptions – mainly in the engineering area – Canadian firms providing environmental goods and services are generally SMEs that have a domestic focus and expertise. Statistics Canada estimates that environmental exports in 1998 were $1.2 billion, representing roughly 8 per cent of industry revenues. As a share of the estimated global market, current Canadian environmental exports are tiny – some 0.25 per cent – and are largely bound for the United States and Europe.

As such, there is considerable potential for growth in Canadian environmental exports. Canadian firms are gaining increased experience in cleaner industrial processes domestically, creating export potential. Efforts to expand the private sector's role in environmental infrastructure will enhance the management experience and capacity necessary for international sales. Canadian engineering and consulting firms have well-developed skills in environmental assessment and management, which will be in growing demand, particularly in developing markets. Canadian firms are also active in a range of clean energy and energy management technologies, and should be well-positioned as the global market demand develops. At EDC, we have dedicated increased staff resources to grow this market, because we believe the future is green. ■

GLOBE 2002

The brightest minds in the world of business and environment will gather this March in Vancouver to share critical strategic business intelligence and debate the role of business in the world's environmental agenda. Conference themes are: Corporate Sustainability, Environment and Energy, and International Business Opportunities.

EDC is proud to be a gold sponsor of this important event and its inaugural awards program for environmental excellence. For more info visit www.globe2002.com.

EXPORTING CANADIAN

By Jane Daly

From recycling cans to cutting down on packaging, we all try to do our part to protect our fragile planet. But here are three companies that have developed technologies to benefit Earth on a much grander scale – and, quite fittingly, they're taking these technologies to the world.

NewSun Technologies looks to a brighter future

Dr. Raye Thomas wears a suit to meet with his customers. A bit impractical, he admits, considering he sometimes ends up climbing inside machinery. But the risk of grease-stained suits does little to quell his enthusiasm for his solar cell production equipment company.

"NewSun Technologies was born over a lunch-time discussion," says Thomas, president and CEO. In 1973, Thomas was researching microelectronics technology at Carleton University, Ottawa. A former student, just back from a solar conference, asked him if a particular technology could be modified to make solar cells. Sketching out the idea over lunch, Thomas realized it could – and set out to prove it.

NewSun was incorporated in 1979 as a holding company, owning one-third of a solar systems company formed at the same time. In 1994, NewSun was turned into an operating company specializing in equipment production, and its first equipment was delivered the following year to a Royal Dutch Shell Group company in the Netherlands. That same year, NewSun also made the first-ever lighted spar buoy to survive a winter in the St. Lawrence.

Since then, most of NewSun's business has been in exporting. Today, the growing company offers full turnkey solar cell production lines, and recently landed two contracts totalling $8 million

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ENVIRONMENTAL EXPERTISE

to provide Crystalline Silicon Solar Cell manufacturing lines.

"But you need more than expertise," Thomas adds. "You must have financial strength." EDC's partnership arrangements with other financial institutions can offer Canadian companies exactly this kind of financial strength. "NewSun was able to take advantage of a pre-shipment financing facility provided by CIBC and guaranteed by EDC," he says.

Kaizen Environmental hits pay dirt through exports

It's a dirty job, but Kaizen Environmental knows just how to clean it up. "In Canada, we assess properties for industrial soil contaminants, so buyers don't end up with an expensive mess," says Kathryn Lundy, general manager.

Kaizen Environmental was founded in 1993, primarily to service the oil and gas industry. "In Canada, once the ground freezes, equipment can break," Lundy says. "In warmer climates, we can work all year round."

In Latin America and the Caribbean, Kaizen Environmental develops industrial waste treatment facilities that take oily waste and remediate it back into clean soil. "Our first export job in Trinidad was a real eye-opener," Lundy admits. "We quickly learned the ways of the market are different. If you're perceived as a foreign company, they try to charge you more. Now we act as a local company – we're registered in Trinidad, built facilities there, and the majority of our employees are from the area."

Another challenge is financing and protection for receivables, and here Lundy says EDC's reputation is as valuable as its services. "Banks don't want to chase down a bad foreign debt, so they respect it when you have EDC's guarantee," says Lundy. "But EDC is also respected by companies abroad. They know a bank is unlikely to come after them, but EDC will. So they pay without question, and we've never had to make a claim."

PyroGenesis sparks new business in exports

PyroGenesis was ignited ten years ago by Peter Tsantrizos, a plasma expert who is today the chief technology officer and chairman.

Plasma is the fourth state of matter, explains Antonio Pisegna, PyroGenesis' corporate controller. "Think of heating ice, a solid and therefore the first state of matter. It will turn to a liquid, then a gas, and finally, through heating the gas at extremely high temperatures, plasma."

PyroGenesis is dedicated to innovation, and currently has 12 patents between its two divisions.

Its Waste Treatment Division makes systems that incinerate waste with plasma torches, for use in small communities and on board navy and cruise ships. "These systems can be made compact and light-weight – important when you're out at sea," says Pisegna. These systems can also be built to treat hazardous and hospital waste.

Amazingly, the systems not only get rid of waste in a more environmentally friendly fashion, but also create energy and vitrified ash, which can be recycled into construction materials such as road fill.

When it comes to exporting, Pisegna says proposals requiring bank letters of credit as bid bonds can be a challenge. "A bid bond is a guarantee that you won't walk away if you're awarded the contract. A bank will normally freeze that portion of your available funds to cover the bond," he says. "But with EDC bonding services, the bank doesn't do that, so our cash flow isn't affected." PyroGenesis also uses EDC insurance to cover bid bonds in case a wrongful call is made by the company requesting the proposal, as well as EDC Accounts Receivable Insurance and Pre-shipment Financing.

"EDC is very open to discussions when we have questions and always prompt and available," says Pisegna. "They're excellent to work with."

EDC is committed to helping Canada's environmental industry take its technologies, products and services to the world. Find out how our trade finance solutions and comprehensive industry expertise can help you by calling 1-888-332-3777.

The Kyoto Protocol:
What Does It Mean for Canadian Exporters?

According to leading climate change scientists, our climate is changing at an unprecedented rate and human activity is the principal cause. For Canada, the consequences of this changing climate could be dramatic:

- The grasslands of Southern Alberta and Saskatchewan could become semi-arid, affecting some 30,000 farms;
- Much of the permafrost in the North could melt, resulting in the need to move many communities and/or rebuild much of their infrastructure;
- Dropping water levels in the Great Lakes and St. Lawrence could make multi-million dollar dredging an on-going requirement; and
- Many of the ecosystems that we are striving to protect in our National Parks system could cease to exist in their current state.

ExportWise discusses this high-profile issue with Paul Fauteux, who is director general of the Climate Change Bureau in the federal government's Department of Environment. He co-heads the Canadian delegation on the Subsidiary Bodies of the United Nations Framework Convention on Climate Change and is actively involved in the analysis and consultations leading up to Canada's decision on ratification of the Kyoto Protocol, expected later this year.

ExportWise (EW): What greenhouse gas (GHG) reduction target has Canada agreed to internationally?
Paul Fauteux (PF): At the 1997 Kyoto talks, Canada agreed to reduce its annual average GHG emissions in the period 2008-2012 to 6 per cent below their 1990 level, which was 607 megatonnes (MT) of carbon dioxide equivalent a year. Because our emissions have been growing since that time, this means a reduction of 26 per cent from our projected "business as usual" emissions in 2010.

EW: What is the likelihood of Canada meeting this target and what is the cost?
PF: We know from all the analysis we have done to date that we can do it. While it is difficult to estimate economic growth, energy prices, and energy development with any accuracy for two years – let alone ten – the analytical work suggests that achieving our Kyoto target will probably reduce our gross domestic product (GDP) by less than 0.5 per cent from what it otherwise might have been in 2010. In other words, compared to the base case assumption that our GDP should be 30 per cent larger than it was in 2000 by then, it would only be 29.5 per cent larger. Moreover, our experience in other areas of environmental regulation suggests that actual costs are generally significantly less than forecasted costs.

EW: What Canadian industry sectors will be most affected by a move towards a global economy that is less dependent on fossil fuels?
PF: Transportation, electric power generation, oil and gas, forestry, agriculture, and commercial and residential buildings are the most dependent on fossil fuels. These sectors account for 90 per cent of Canada's GHG emissions.

EW: How is the Government planning to meet Canada's Kyoto target?
PF: The Government of Canada has invested $500 million over five years in Canada's Action Plan 2000 on Climate Change. Our actions to date should result in total emission reductions of 100 MT per year in the Kyoto commitment period (2008-2012).

Further emission reductions can be achieved with technology already in use in Canada or somewhere else in the world. We need to decide where these emission reductions

"We need to decide where these emission reductions should take place, the cost, and what is the best mix of tools for achieving them."

should take place, the cost, and what is the best mix of tools for achieving them.

There are also three mechanisms in the Kyoto Protocol that allow countries some flexibility in how they meet their emission limitations or reduction commitments. The Clean Development Mechanism (CDM) allows countries with Kyoto targets to generate carbon credits by investing in emission reduction projects in developing countries, while Joint Implementation (JI) does the same thing for economies in transition. The third Kyoto Mechanism is International Emission Trading (IET), which allows developed countries, economies in transition and their companies to trade emission credits among themselves. We need to decide how much we want to use these mechanisms, and that will largely depend on what we think the international price of carbon is going to be. Most experts believe this price will be around $10 per tonne of carbon dioxide.

EW: What role can Canadian companies play?

PF: Fighting climate change will require the involvement and ingenuity of governments, business and individual Canadians. It will also create tremendous opportunity for technological advancement and innovation that will keep Canada on the cutting edge of global competitiveness.

Good examples of this are the Canadian-developed Ballard fuel cell, which is expected to play a major role in making the transition to sustainable transportation, and Iogen Ltd., which is developing a process to mass-produce ethanol from agricultural and forestry by-products that will be blended with gasoline to reduce GHG emissions from conventional vehicles.

The economic rewards will be large for companies and countries that are first in developing clean energy and energy efficiency technologies that can compete in the global market place.

The Department of Foreign Affairs and International Trade has established a CDM/JI Office (headed by Sushma Gera at 613-944-3039 or email cdm.ji@dfait-maeci.gc.ca) with the objective of facilitating Canadian company involvement in foreign investment projects that reduce GHG emissions.

Setting Environmental Standards for the *21st Century*

EDC firmly believes that the environmental and social review of projects is a fundamental aspect of good business management. Since 1999, EDC has reviewed the environmental impacts of projects it has been asked to support in accordance with its Environmental Review Framework (ERF). In adopting the ERF, EDC positioned itself as a leader among export credit agencies (ECAs) and commercial financial institutions in recognizing and codifying environmental review practices.

Progress in reaching common approaches to the environmental review of projects among OECD nations' export credit agencies, recommendations made by the Auditor General regarding EDC's Environmental Review Framework in May 2001, as well as stakeholder input provided during recent public consultations, have prompted EDC to further strengthen its environmental review practices.

In addition, in 2001 the Minister of International Trade introduced legislation that would lend statutory weight to EDC's environmental reviews through amendments to the *Export Development (ED) Act*. The amendments to the *ED Act* were proclaimed into law on December 21, 2001. On this date, EDC adopted a new environmental review policy referred to as the Environmental Review Directive (ERD). →

What are the requirements of the Environmental Review Directive?

The Directive defines the types of transactions to which the legal requirements will apply; the categorization of projects according to their level of potential environmental effects; the environmental information required from customers; and the social and environmental grounds upon which EDC may justify its support to projects that have the potential to cause adverse environmental effects. The Directive is available on EDC's web site at http://www.edc.ca/corpinfo/csr/environment/index_e.htm.

How will the Directive affect the business I do with EDC?

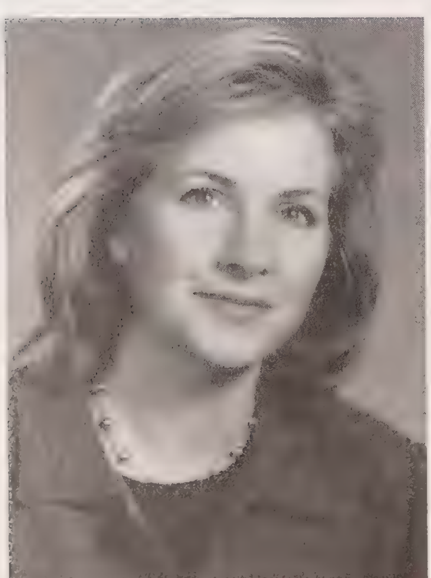
The Directive does not involve the creation of an entirely new process, since EDC has always reviewed the potential environmental and related social effects of the projects it is asked to support, as part of its overall risk assessment, and has applied a detailed environmental review process since 1999. EDC will continue to require project-level environmental information in order to conduct its overall risk assessment and environmental review, and customers should not notice a significant change in the information required to consider support or the time needed to make support decisions.

Will EDC publicly disclose the environmental information of my project?

Where EDC's Canadian customer is a significant project sponsor, EDC will require the public release of project-related environmental information by its customer at least 45 days prior to EDC signing. In the situation where EDC's Canadian customer is not a significant project sponsor, EDC will ask the customer to make best efforts to secure the release of this information by the project sponsor. ■

If you have concerns or questions about EDC's environmental review process, please contact Art FitzGerald, EDC's chief environmental advisor at (613) 597-7050.

Mary Grover-LeBlanc: *in memoriam*



We have often heard the expression "to work a room" in reference to those whose position puts them in touch with many audiences. Mary Grover-LeBlanc, EDC's vice-president, corporate reputation and external relations, "warmed a room." Her tragic death in a car accident on December 28, 2001 leaves an irreplaceable gap in the hearts of friends and colleagues whom she warmed with her grace, sincerity, intelligence and leadership.

Many of you, our *ExportWise* readers, may have met Mary at numerous events related to EDC's environmental review processes or other corporate social responsibility initiatives. Mary had been with EDC for two and a half years, during which time she forged EDC's profile for public accountability. Her heart shone through in everything she did, and her passion and intelligence opened doors for new ideas and countless relationships. Her record on behalf of EDC ranged from launching a nation-wide scholarship program for students studying international business, to the establishment of a high profile Advisory Council for EDC corporate social responsibility practices. In her short time with EDC, Mary achieved something we all strive for…she has left a remarkable legacy.

As we continue to mourn the loss of our respected colleague and friend, our commitment to Mary's legacy will live on in our hearts and actions. ■

TransAlta Finds Power *in Mexico*

Whether you are looking to buy a house or build a multi-million-dollar power plant, securing financing and insurance is a critical component. Just ask TransAlta Corporation.

By Shawn Dalrymple

TransAlta is Canada's largest non-regulated electric generation and marketing company, with more than $7 billion in assets and 8,000 megawatts (MW) of capacity. Based in Alberta, the company currently operates power plants in Canada, the United States and Australia.

Soon, TransAlta will also have operations in a new market – Mexico. In 2003, the company will begin generating electric power in the state of Campeche, a move TransAlta's director of corporate finance Frank Hawkins says will be a major milestone for the company.

"The fact that Mexico is a part of NAFTA, that good trade relations exist between Canada and Mexico, and that Mexico clearly has a growing electricity market, all combine to make this an excellent location for us," says Hawkins.

After making the decision to move into the region, TransAlta set out to find the right financing and insurance partner for this approximate US$200 million project. Their search led them to Export Development Canada (EDC).

EDC's ability to provide customized coverage proved useful. As joint lead arranger for the financing of the project, EDC underwrote US$66.8 million. EDC also acted as sole arranger for the political risk insurance (PRI) by underwriting US$122 million over the 16-year term of the project loan.

"The need for a 16-year tenor on the PRI proved very challenging," says Steven Kerbel, senior underwriter of EDC's mining and power team. "Most insurers are mandated to take exposure of up to 15 years, but thanks to some creative structuring with our reinsurers we were able to provide the coverage."

According to Hawkins, EDC met challenges that other insurers could not meet. "Not only did EDC satisfy our needs, their quotes were competitive with other commercial providers. In the end, we saved money while protecting our investment."

Hawkins also notes that working with EDC brought additional credibility to TransAlta, which is invaluable to international capital market financing arrangements of this type.

Profile

Business: Power generation, energy marketing

Employees: 2,000 worldwide

Exports: Power generation revenues outside of Canada represent 40% of total revenues

Key markets: Unites States, Australia, Canada, Mexico

EDC relationship: Financing, Political Risk Insurance

Contact: www.transalta.com

The Campeche Plant

The Campeche plant will be a 250 MW gas-fired power plant fueled by natural gas. The combined-cycle plant is currently scheduled to begin generation in the first quarter of 2003.

TransAlta has already signed a 25-year power purchase agreement with the Comisión Federal de Electricidad (CFE), and gas will be supplied under a long-term contract with Mexico's Pemex Gas y Petroquimica Basica. TransAlta will retain ownership and operation of the plant.

While the Campeche power plant will be TransAlta's first foray into the Mexican market, it will not be its last. The company projects its global power generating capabilities to reach 10,000 MW by year-end 2002, and Mexico is a key market for this strategy. Already, TransAlta has begun building another plant in the Mexican state of Chihuahua, and combined, the two plants will generate over 500 MW of power.

South Korea:

Prior to the financial crisis that swept through Asia in 1997, South Korea was known as one of the "Five Tigers" – countries whose economic progress and growth seemed to have no bounds.

Then the crisis hit. Growth plummeted. Korea was forced to rebuild much of its economy. Canadian exporters pulled away from the market.

Now, nearly five years later, this Asian Tiger roars again. Its businesses are strengthened, and Canadians have the ability to prosper in this nation. But as the Korean proverb says: "If you want to catch a tiger, you have to go into a tiger's cave."

By Mark Bolger

Catching the Tiger

After battling through the 1997 Asian economic crisis, Korea now stands a stronger nation. This land of 46 million is sixth on Canada's top ten export destinations list, which is evidence enough that many Canadian exporters have opted to consider Korea a market of opportunity.

The resilience of Korea is not altogether surprising, given the country's rapid economic adaptation in the past – it took less than four decades for Korea to become an industrialised nation, a feat few have ever accomplished. Moreover, despite last year's struggling global economy, Korea's GDP grew nearly 3 per cent, with growth of 3.5-4.0 per cent forecasted for 2002.

This projected growth will have a significant impact on Canadians looking to Korea to diversify their export markets. Canadians export about $2.3 billion to Korea annually, but this figure represents only 0.8 per cent of Korea's total imports. As such, there are many growth opportunities available for Canadian companies in a wide range of sectors, which include agri-food, advanced technology, safety and process control, transportation, health and pharmaceutical, and environmental technology.

Canada's traditional commodity sectors – coal, wood pulp, chemicals and various metals – also hold potential. With Korea's heavy reliance on foreign sources of raw materials to feed its industries, Canada's foothold in the provision of these goods to international markets will prove lucrative for many. Assuming the Korean market realizes its projected growth rates, Canadians can expect increased demand for some of these traditional exports. →

Korea is continually strengthening its position as one of the world's

Taking a closer look

Agri-food: No longer an agrarian economy, Korea now imports almost 80 per cent of its food requirements, thus providing Canada's agri-food sector with many opportunities. Items especially in demand include beef and pork, seafood, organic/health foods, and snack foods. Prepared foods that are convenient and promote healthy living will also catch the Korean consumer's eye.

Noteworthy, especially in terms of beef and pork exports, is that many of Canada's competitors have had their reputations tarnished by fear of disease or chemical contamination in recent years. Canada may be able to leverage this to its advantage.

Agri-food exporters need to be mindful of Korea's complicated and often inefficient food distribution networks. Many major foreign suppliers have found it necessary to establish and manage their own networks, especially when it comes to cold chain product lines. Further, smaller exporters may require a good Korean agent to help pick potential targets and manage the distribution process. This agent will need to have detailed knowledge of the region and the people, as consumer tastes vary – preferences in Seoul may not be shared in Pusan, Inch'on or Taejon, for example.

Also note that Korea's retail sector is undergoing a major upheaval with the recent permeation of discount chains into the country. Traditional outdoor markets and local corner stores remain very important to Korean shoppers, but they are undoubtedly feeling some pressure from the presence of these chains.

Advanced technology: There are considerable opportunities in many of the Korean advanced technology sectors, including wireless telecom, non-memory semiconductor technology, and value-added internet programming/servicing.

Korea is continually strengthening its position as one of the world's top internet and information technology-based economies. Nearly half of all Koreans have a direct internet connection, and close to 60 per cent of these subscribers use broadband connections. As such, multimedia, educational programming and internet gaming are all content areas under development. Web applications that create interactive visual and audio sites with relatively little text will also find success in Korea.

Pay-per-use services like webcasting (and the associated advertising revenues) generate nearly $1 billion in sales per year, meaning Canadian suppliers that offer value-added programming or supportive hardware will likely find a market for their product. Canadians should note that while deregulation is making it increasingly easy for foreign suppliers to penetrate this sector, co-operative opportunities with domestic incumbents should not be overlooked.

An interesting characteristic of the Korean internet economy is the relative success of business-to-consumer e-commerce over business-to-business (B2B) channels. While B2B does account for nearly 50 per cent of Korean e-commerce traffic, less than 5 per cent of this is profitable, leaving much room for improvement. Complicated and non-co-operative interactions between large family-owned business conglomerates (known as chaebols), lack of security and transparency, and limited competitive procurement are all problems that the current government is trying to solve in order to open up the market.

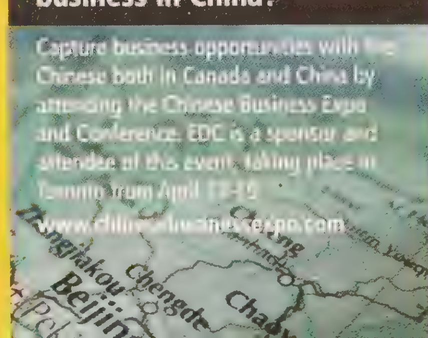
Safety and process control: Safety and process control is another industry expected to show an upswing in demand. For decades, little has been done to ensure Korean industries run as safely and efficiently as possible. Recently, however, the government has attempted to increase the country's safety standards and heighten awareness by developing on-the-job safety training, increasing hazard identification and prevention, implementing equipment monitoring programs, and exercising more caution in the clean-up of industrial accidents. The safety and process control market also includes chemical and biological safety products and inspection technology for Korea's nuclear industry.

Transportation: Korea is seeking foreign expertise in signalling and management equipment for its transportation

Interested in doing business in China?

Capture business opportunities with the Chinese both in Canada and China by attending the Chinese Business Expo and Conference. EDC is a sponsor and attendee of this event, taking place in Toronto from April 17-19.

www.chinesebusinessexpo.com



op internet and information technology-based economies.

sector. Each year for the past 10 years, the country's transportation services market has shown growth of approximately 15 per cent, and many more improvements and expansions are still required. Presently, a series of ambitious infrastructure developments in the country's air, rail and road transport sectors are under way, and advanced monitoring and traffic control mechanisms are required for these upgrades.

Health and pharmaceutical: Prior to 1998, Korea was the world's 10th largest pharmaceutical and medical device market. After a bit of a lull caused by the Asian economic crisis, Korea's health sector imports have rebounded and annual growth of 15 per cent is anticipated in the coming years.

When the country fell into financial difficulty, the purchase of high expense health items (like MRIs and other technical scanning equipment) naturally fell by the wayside in favour of refurbished equipment. Now past the crisis, Korea's spending in this sector has increased, with nearly $1 billion invested in 2001. Currently, the country must import 60 per cent of its medical device requirements, opening up a wide range of niches for Canadians. Specifically, diagnostic machines for internal medicine, patient monitors, sterilizers, general surgical instruments, and artificial replacement parts are all sought-after items.

Foreign companies contribute approximately $1.6 billion to Korea's pharmaceutical sector. Illness prevention is the predominant impetus for spending – with an aging population, medications that keep illness at bay are as important as those used to treat existing ailments. Over-the-counter products also enjoy a very strong market in Korea, and foreign companies looking to establish themselves in this niche should explore joint ventures with established Korean manufacturers.

The Korean government has also made it a priority to become a world leader in the biotechnology industry. Key elements are developing domestic drug manufacturing inputs, improving domestic generation of generic drugs, and creating biomedical agents to be used in diagnostics.

Environmental technology: While the past few years of expansion in Korea have built many sectors into strong and vital contributors to the country's economy, this change was often at the expense of the environment. The Korean government has made the upgrading and modernization of this sector a priority, and as such there are many opportunities available for Canadian firms with specialization in this field. (The article featuring ZENON Environmental Inc. on page 24 provides more insight into the Korean environmental technologies sector.)

Doing your homework

When exporting to any country, be sure to do thorough research on existing market entry hurdles. Korea has removed many restrictions to foreigners in the past four years but complications and challenges still exist. For example, depending on your product, you may face special licensing, labelling or quota barriers.

Offering low prices and branding your product are especially important in Korea. Additionally, exporters can expect to spend considerable time forming relationships with their Korean counterparts, and working with Korean agents can help reduce some of the challenges in this regard. DFAIT's Trade Commissioners' Service can also be helpful in these areas, as well as in overcoming issues of market access and developing Korean contacts.

Five years after the Asian economic crisis hit Korea, the country is again on the path towards growth and stability. Hopefully, more Canadians will hear this Tiger's roar and venture into its cave. Careful planning and caution is needed – it is a Tiger you hunt, after all – but its home is full of opportunity and prosperity.

Did you know...?

- The 2002 FIFA World Cup Soccer Games will be co-hosted by South Korea and Japan, and will run from May 31st until June 30th.
- One of Korea's most important holidays is the Lunar New Year, or Seol. This year, Seol was celebrated on February 12th. 2002 is the Year of the Horse.

ZENON: Clean Water for Korea and the World

When it comes to potable water, most Canadians have it pretty easy. Unfortunately, for many parts of the world, the picture isn't so clear.

By Mark Bolger

Take South Korea, for example. A country with low levels of rainfall, Korea's water supplies are in a state of crisis. Major city centres like Seoul, with an approximate population of 11 million, could be without suitable drinking water in less than a decade if proper cleanup and management steps are not taken soon.

Fortunately, many Canadian companies can rise to the challenge. One of Canada's niche export strengths – environmental technologies – can help protect and save precious resources like water. This know-how, combined with Korea's immediate need, has opened up a wealth of opportunities for Canadian exporters.

ZENON and its ZeeWeed

Headquartered in Oakville, Ontario, ZENON is a recognized leader in the manufacture and sale of advanced membrane systems for water treatment. Founded more than 20 years ago, the company uses inert plastic fibres, each containing billions of pores, to make up the "ZeeWeed" membranes in its filtration systems. As contaminated water flows through the membranes, the pores stop unwanted particulate, including microscopic items like viruses, from passing through. The end result is a filtered water of extremely high quality and clarity.

Last year, ZENON began supplying its ZeeWeed treatment systems to Samsung Electronics in Korea. Samsung needed perfect water for use in its semiconductor manufacturing process and safe drinking water for its employees. Valued at $7 million, Samsung's investment represented the largest ultrafiltration water treatment system for industrial usage in Asia.

"Membrane technology is becoming the standard in water purification, and ZENON has a global reputation as a leading provider of this technology," says Dr. Andrew Benedek, ZENON CEO and chairman. For ZENON, the Samsung system is likely just the tip of the iceberg.

Overcoming obstacles

Cultural differences as well as product licensing and testing are often the biggest challenges for inexperienced foreign suppliers. Dr. Benedek believes that employing the services of a Korean licensee helped them overcome many of these hurdles.

"You have to find the right partner who understands the local conditions," states Dr. Benedek. "With the advantage of a strong local partner, we were able to provide our customer with a lot of design- and process-engineering support. Our customer really appreciated that."

While Dr. Benedek admits that negotiating the contract was a challenging affair, he emphasizes that the speed at which the Koreans worked to complete the deal was very impressive. "We have never implemented a project that efficiently before."

ZENON has tapped into an area of exceptional growth potential. By 2005, it is estimated that Korea will spend over $140 billion in new water treatment and supply facilities, solid waste management plants and incinerators. With so much potential, there is plenty of room for other Canadian suppliers to join ZENON and help provide clear and clean solutions to the Korean market. ■

Profile

Business: Manufacturer of advanced membrane systems for water purification, wastewater treatment and water reuse systems
Established: 1980
Location: Headquartered in Oakville, Ontario, with 17 offices in 11 different countries
Employees: 600 +
Exports: 80% +
Contact: www.zenonenv.com

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(as it appears in upper left corner of your mailing label)

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ephone/e-mail

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nange   (print your new address above, and your former address below)

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ephone/e-mail

dress

I would like an EDC representative to contact me.

Demographic information

Language preference

EN English   FR French

You are... *(choose one)*

C1 An EDC customer
C2 An educator/student
C3 A government official
C4 A potential EDC customer
C5 Other: ______________

You are... *(choose one)*

E1 Currently exporting
E2 Not applicable
E3 Considering exporting

Export volume *(choose one)*

V1 Less than $1 million
V2 $1 million to $5 million
V3 More than $5 million
V4 Not applicable

Principal product or service? ______________

CANADA POSTES
POST CANADA

Postage paid
if mailed in Canada
Business Reply Mail

Port payé
si posté au Canada
Correspondance-réponse d'affaires

0077482000 01

0077482000-K1B3V9-BR01

MDS MACFARLANE DATA & MAILING SVS.
2750 SHEFFIELD RD UNIT 1
OTTAWA ON K1B 9Z9

Economic Outlook for 2002

By Mark Worrall

Following the events of September 11, it was feared that deepening recessionary pressures in the United States would intensify and extend the sharp slowdown experienced by the Korean economy in 2001. However, Korea's growth has outperformed expectations in recent months, thanks to its strong domestic consumption, construction and service sectors.

Korea's stock market has risen by more than 30 per cent from its lowest point in September, given the incipient turnaround in the global and Asian economies. Further, Korea's 2002 budget reinforces last year's stimulus policy and is very business friendly: the corporate tax rate has been cut by 1 per cent; spending on IT and R&D has been raised; culture and tourism spending will be increased significantly; and the government has committed to extending financial support to companies in difficulty.

Given this positive backdrop, Korea appears set for a solid year in 2002, with growth in excess of 5 per cent. The paradox that Korea faces over the short term is that improving economic fortunes will place increasing pressure on the structural deficiencies of the economy that were exposed in 1997 and still have not been adequately resolved. Indeed, the gearing of the Korean economy has increased over the past year, as companies have taken advantage of declining interest rates by raising funds from the loan and bond markets. When inflation again becomes a concern in the second half of this year, the central bank will raise interest rates and the cost of financing will become an important issue for those companies that have not yet improved their efficiency. This combination of forces is likely to prompt many Korean corporations to rationalize their operations, thereby limiting any gains in employment that Korea would hope to generate from the revival of economic growth. ■

Did you know...?

→ It is customary to exchange small gifts when meeting Korean business partners for the first time. However, Koreans never unwrap a gift in front of the giver.

→ To serve a drink, Korean's use their right hand to pour and their left hand to support the wrist or forearm, if needed. Both hands are used to support the glass when receiving a drink.

→ The national dish of Korea is kimchi (KIM CHEE). It is a dish made out of seasoned and fermented pickled cabbage, radish, or cucumber with normally high levels of garlic and red pepper.

South Korea Contact Info

The Canadian Embassy in the Republic of Korea

10th-11th Floors, Kolon Building
45 Mukyo-dong, Chung-ku
CPO Box 6299
Seoul, Korea
Tel: (011-82-2) 3455-6000
Fax: (011-82-2) 755-0686
www.korea.gc.ca

Consulate of Canada in Pusan

Mr. Bonn K. Lee
Commercial Officer
pusan@pusan.gc.ca

432-1 2-ka, Bumin Security Building, 4th Floor
Daechong-dong, Chung-ku
Pusan, 600-092, Korea
Tel: (011-8251) 246-7024
Fax: (011-8251) 247-8443, (011-8251) 246-5658
www.korea.gc.ca

Embassy of the Republic of Korea in Canada

150 Boteler Street
Ottawa, Ontario
K1N 5A6
Tel: (613) 244-5010
Fax: (613) 244-5043
www.emb-korea.ottawa.on.ca/home_menu.htm

Korea Trade Center

65 Queen St. West, Suite 600,
Box 9, Toronto, Ontario
M5H 2M5
Tel: (416) 368-3399
Fax: (416) 368-2893
www.kotra.or.kr/ktc/yyz/foreign/main.php3

Department of Foreign Affairs and International Trade

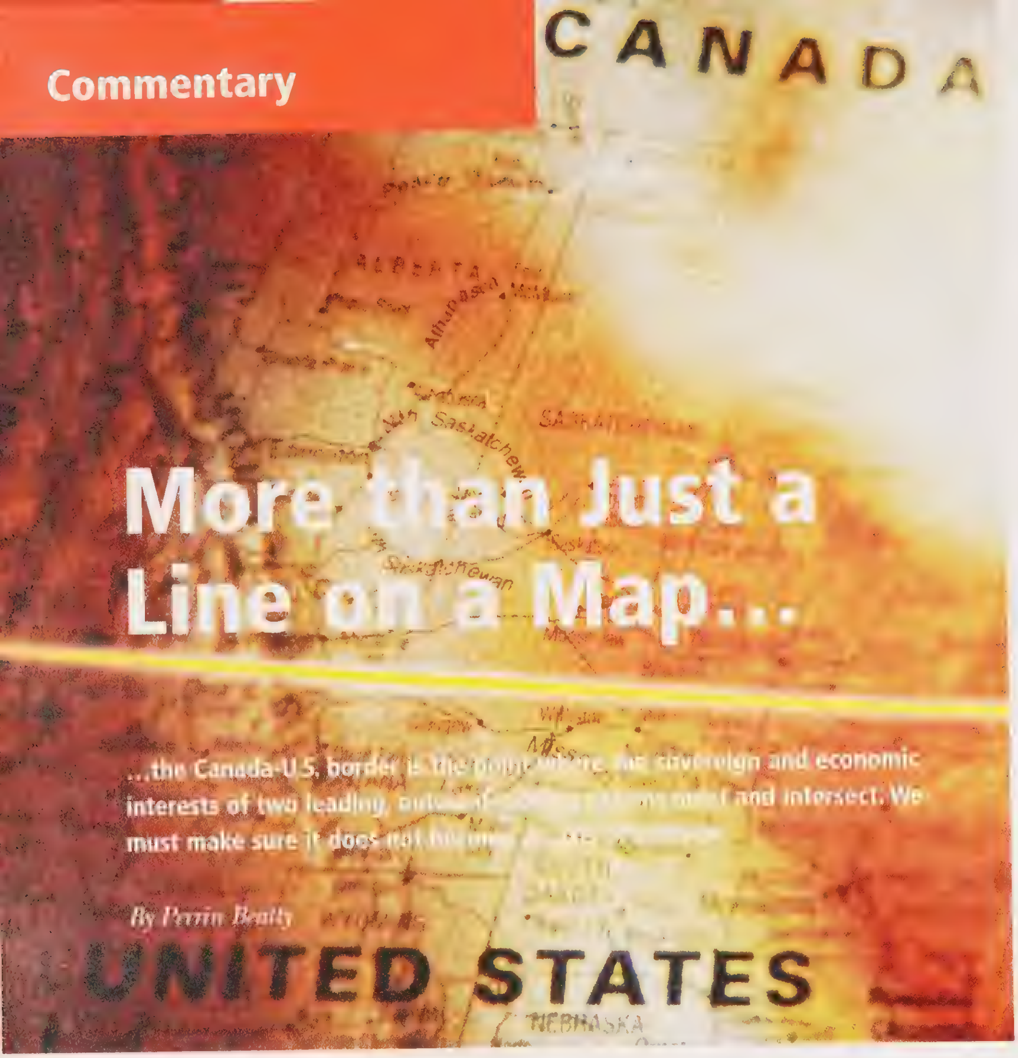
Ms. Lynne Thomson
Trade Commissioner
lynne.thomson@dfait-maeci.gc.ca

125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel: (613) 995-8744
Fax: (613) 996-1248
www.dfait-maeci.gc.ca

Export Development Canada

Mr. Mark Bolger
Regional Manager for Asia and Pacific
mbolger@edc.ca

151 O'Connor St.
Ottawa, Ontario
K1A 1K3
Tel: (613) 598-2508
Fax: (613) 598-2503
www.edc.ca



More than Just a Line on a Map...

...the Canada-U.S. border [illegible] sovereign and economic interests of two leading, outward-[illegible] and intersect. We must make sure it does [illegible]

By Perrin Beatty

For most Canadian companies seeking to do business internationally, the world starts at the Canada-U.S. border. For some, it represents the gateway to sustained bilateral commerce. For others, it is the jump-off point into the global marketplace, before conquering more distant frontiers.

Simply put, with Canadian manufacturers now selling more of their production to the United States than they sell at home, Canadian prosperity depends on our trading relationship with our southern neighbour. That relationship depends on the efficient flow of goods and people across the 49th parallel. If the border becomes a barrier, it will choke off our exports and stem the flow of foreign investment into Canada, costing tens of thousands of Canadian jobs.

Problems at the border are not new – commercial shipments and business travellers have encountered unnecessary delays for years. However, resolving them has become urgent since September 11th. Following the terrorist attacks, heightened American security slowed border traffic to a crawl, costing Canadian companies tens of millions of dollars and forcing some plants to reduce or halt production. It also gave us a glimpse of what the future holds if we do not work together to protect our countries from terrorism.

Canadian Manufacturers & Exporters (CME) was working on border problems well before September 11th. For example, it helped lead the development of Customs Self-Assessment and CANPASS, and formed a joint working group with the U.S. National Association of Manufacturers. Since the terrorist attacks, it has redoubled its efforts.

To avert a border shutdown, CME spearheaded the Coalition for Secure and Trade-Efficient Borders, which includes almost 50 business associations and major companies. The Coalition has released two reports outlining an integrated approach to the security of Canada and the United States.

We were pleased to see many of our recommendations reflected in the December 2001 federal budget, and in the Smart Border Declaration and its 30-point Action Plan signed by then Foreign Affairs Minister John Manley and U.S. Office of Homeland Security Director Tom Ridge. These initiatives send a clear signal that Ottawa has listened to industry. The Declaration makes it clear that the two governments want to build a system in which the physical and economic security of both countries is stronger than before September 11th. It's a wise response that attempts to bring something positive out of the terrorist attacks.

Success will depend on how the principles become action. How much will the government spend, and on what and when? And what are the regulatory and other requirements that will have to be borne by business?

Industry looks forward to working closely with governments on both sides of the border to implement the Action Plan as quickly and effectively as possible.

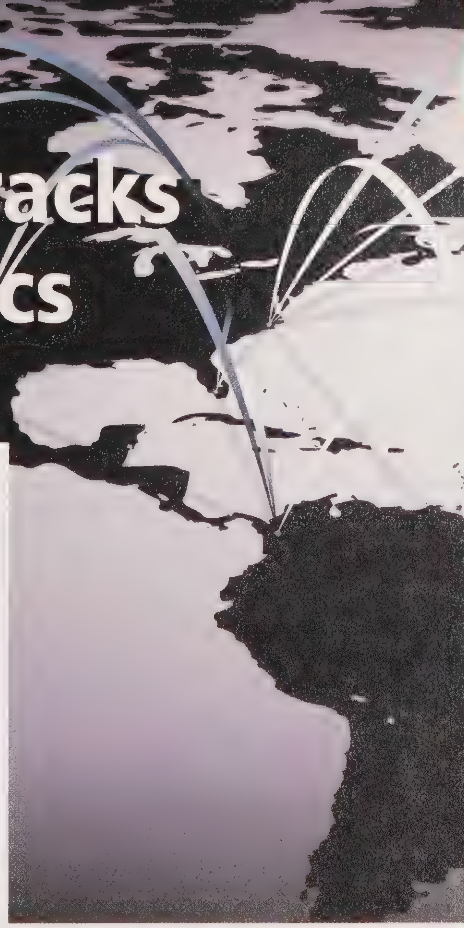
We cannot expect all of the measures to be implemented at once; priorities must be set that reflect the most pressing concerns of business. Canada's economy, which depends on exports more than any other industrialized country, can only benefit if industry and government work together. ■

Perrin Beatty is president and CEO of Canadian Manufacturers & Exporters, which gives Canadian companies the representation, resources and service they need to grow their export business and improve their bottom line. He can be reached at pbeatty@cme-mec.ca. For more information on the Coalition for Secure and Trade-Efficient borders, visit www.cme-mec.ca/coalition.

The views expressed in Commentary columns are those of the author and are not necessarily held by EDC.

Transera Tracks the Logistics

By [illegible]



Rosemary Marr, President and CEO of Transera Group, has built a thriving business by ensuring her clients' products get to market on time and on budget. After gathering experience in a Vancouver-based freight-forwarding company, Marr ventured out on her own and founded Transera in 1985. "I started Transera because I had extremely high ideals of what providing service to a client really meant. I wanted to be in a position to make the decisions that would benefit clients and build strong relationships for the future, rather than just treating a client as the 'file of the day'." She adds, "I was also young, newly married with no children and very naïve."

As a freight forwarding company, Transera does not fly the planes, nor conduct the trains. Its team, along with a network of global agents, puts together the logistics path for its clients. These logistics are often mapped out long before an international contract is sealed and the product goes into manufacturing. "With the right information, cargo can be manufactured to suit the particular needs of the buyer, but can also be designed to enable more cost- and time-effective transportation," says Marr. "There is no sense selling a product overseas if you cannot get it to the market on time and on budget. That's where we step in."

Transera has grown to be one of Canada's largest freight-forwarding companies, with Canadian exports accounting for roughly 40 per cent of its business. In 2001, Marr was honoured with the EDC Export Award at the Rotman Canadian Woman Entrepreneur of the Year Awards. "Winning the award was important to me, but more so for the company. It was a clear message to the people who are associated with Transera – vendors, clients and, most importantly, my co-workers – that Transera has come of age, is a strong player, and can no longer be considered a small company," says Marr.

In 2002, Transera is poised for further growth. Marr explains, "Transera went through considerable expansion last year, opening three new offices and making an acquisition in the United States. Our plan for this year is to focus on developing each of the new offices to its maximum potential, while at the same time seeking new acquisitions that fit our strategic plan." ■

Profile

Business: Freight-forwarding and logistics
Established: 1985, originally known as Expeditors International Forwarding Ltd.
Annual sales: $42,000,000
Exports: 40%
Key markets: Middle East, Commonwealth of Independent States, South America
Employees: 59 in Canada, U.S. and overseas
Contact: www.transera-intl.com

An export success

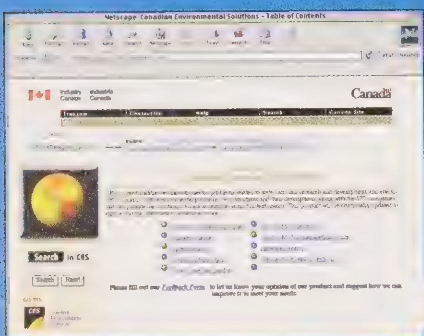
Rosemary Marr, president and CEO of Transera Group of Companies, accepts the EDC-sponsored Export Award from EDC's senior vice-president of business development, Ron Dahms, at the Rotman Canadian Entrepreneur of the Year Awards in Toronto last November.

For more than ten years, the Rotman Canadian Woman Entrepreneur of the Year Awards have celebrated the achievements of Canada's leading female entrepreneurs. The Awards are an initiative of the Joseph L. Rotman School of Management, University of Toronto. A team of national judges, who are themselves successful businesswomen, select the winners. In 2001, EDC came on board as a sponsor of the Export Award, one of several EDC initiatives to help and encourage more Canadian women entrepreneurs to export.

Help spread the word about deserving women entrepreneurs. Think about your business networks – your partners, suppliers, clients, customers or friends – and take a moment to fill out a nomination form at www.cweya.com. The 2002 call for nominations ends June 7, 2002 and the application deadline for nominees is July 8, 2002. For additional information call 1-800-354-3303 or e-mail: awards@cweya.com.

Environmental & Korea Information Resources

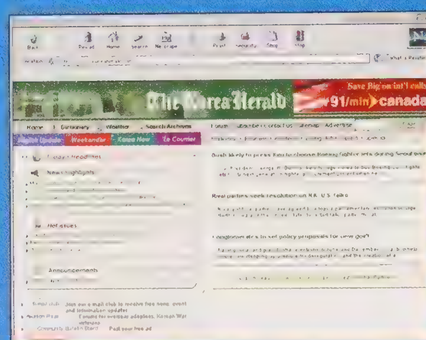
The web sites highlighted below provide valuable information to complement this issue's industry and geographic features: Environmental Technology and Services (pg. 10) and South Korea (pg. 20).



Canadian Environmental Solutions

http://strategis.ic.gc.ca/SSG/ea00001e.html

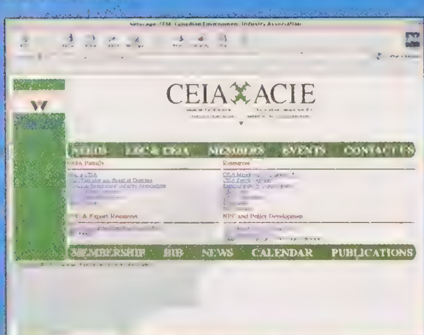
This Industry Canada site addresses many of the problems currently plaguing our environment, including biotechnology requirements and climate change issues, and examines the solutions that have been offered.



The Korea Herald

http://www.koreaherald.com

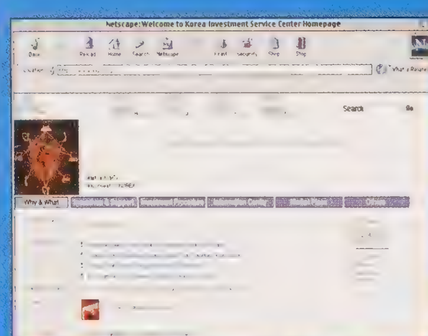
Attractively designed and easy to navigate, this site provides all of the day's news from Korea in English. It includes national, business, and infotech news, as well as editorial and special sections.



Canadian Environment Industry Association

http://ceia-acie.ca/

The CEIA site features news, publications, events, and links related to the environment industry. Site also offers information on the Environmental Exporters Council – a group of environmental companies and institutions who collectively seek to help Canadians strengthen their international competitiveness and increase their export sales.



Korea Investment Service Center

http://www.kisc.org

The KISC Information Center provides resources relating to the Korean economy, foreign investment, industries, finance, taxation, labour, housing, leisure, culture, food, and more. Site also features an on-line newsletter, magazine, and a series of useful links.

ExportWise

Editor
Julie Harrison
jharrison@edc.ca

Editorial Assistant
Shawn Dalrymple
sdalrymple@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateur avertis* is led by Anne Tanguay, in collaboration with Maguy Robert.

Contributors
Cressida Barnabe, Perrin Beatty, Mark Bolger, Brenda Brown, Jane Daly, Mark Drake, Paul Fauteux, A. Ian Gillespie, Toby Herscovitch, Glen Hodgson, Melez Massey, Peter McKinnon, Stephen Poloz, Paul Stothart, Mark Worrall

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at www.edc.ca.

Insurance

Accounts Receivable Insurance (ARI) – Covers a Canadian exporter against 90 per cent of export and domestic credit losses (domestic cover provided by London Guarantee Insurance Company) if the buyer can't or won't pay. ARI gives exporters "peace of mind" and access to new working capital by converting an outstanding receivable into a bankable asset, which in turn increases their ability to compete by being able to offer longer credit terms.

Political Risk Insurance – Helps Canadian companies protect their investments abroad, covering up to 90 per cent of losses.

Political Risk Insurance of Loans – This expanded form of Political Risk Insurance offers increased protection for investment loans.

Financing

Direct Loan – A financing arrangement between EDC and a foreign buyer, or a foreign borrower on behalf of a foreign buyer, for the export of a Canadian capital good or service. Medium-term export loans involve credit terms greater than two years and turn the exporter's sale into a cash sale.

Line of Credit – EDC has set up pre-arranged lines of credit with foreign banks, institutions, or purchasers, under which the foreign borrower lends the necessary funds to foreign purchasers of Canadian capital goods and services. A full listing of EDC Lines of Credit is available on EDC's web site at: www.edc-see.ca/loc.

Equity Investment – EDC can invest as a subsidiary investor in projects and companies that generate direct, substantial, identifiable, export-related benefits to Canada.

Contract Bonding

Bid Security Guarantee (BSG) – Protects banks from any calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – Protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – Indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

Direct Surety Bond Support – By providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

On-line Services

Market Intelligence: www.edc.ca/e-reports – EDC's Economic Reports monitor political and economic events and gauge opportunities in more than 200 markets. This service is available at no charge to EDC customers and is also available through an annual subscription.

EXPORT *Check*: www.edc.ca/exportcheck – For as low as $60, Canadian companies can find out whether EDC considers their foreign buyer insurable for a specific transaction as well as some key summary credit and financial information. For more details about the buyer's credit and financial history, a Dun & Bradstreet Business Information Report can also be purchased.

EXPORT *Protect*: www.edc.ca/exportprotect – Canadian exporters can insure a single transaction of up to US $250,000. If a foreign buyer is in EDC's database and is considered insurable for the transaction, coverage is available immediately through a quick on-line application process.

e-Performance Security Insurance: www.edc.ca/bonding – Exporters can now apply, accept and pay on-line for EDC Bid or Performance Security Insurance (see Contract Bonding).

Small Business

Small Business Accounts Receivable Insurance – Accounts Receivable Insurance protects an exporter's outstanding receivable assets. EDC will insure export and domestic sales and if a buyer can't or won't pay, policyholders can make a claim for up to 90 per cent of the outstanding receivable with minimum administrative requirements. You can call 1-800-850-9626 to speak with an underwriter and put coverage into place over the phone.

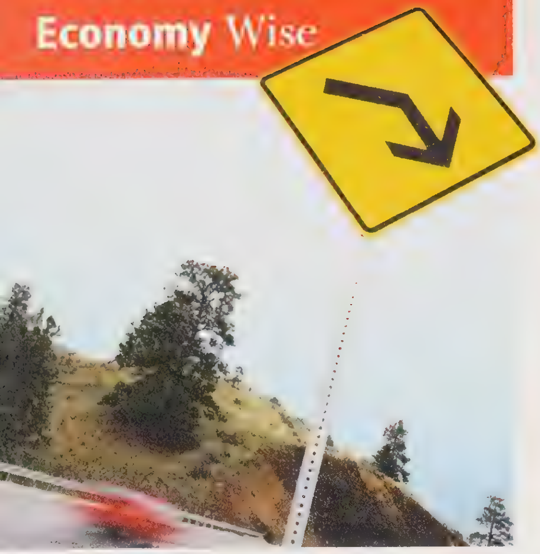
Master Accounts Receivable Guarantee (MARG) Program – EDC can help smaller exporters obtain up to $500,000 in additional working capital from their bank by guaranteeing the operating line which is secured by all of the exporter's foreign accounts receivable.

NorthStar Trade Finance – This public-private sector partnership provides fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available on-line at www.northstar.ca.

Simplified Contract Bonding – A streamlined application/approval process has been developed for SMEs who require contract or surety bond guarantees.

Pre-shipment Financing – To help finance the pre-shipment working capital needs of smaller exporters, EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

Interested in an up-to-date list of all of EDC's available Lines of Credit (LOC) worldwide? They're on-line at: www.edc.ca/loc.



Warning:
Deflationary Downdrafts Ahead

The unfolding global economic upturn will have some unpleasant characteristics, including a weak labour market, intense international competition and pockets of outright deflation.

by Stephen S. Poloz

The transition from recession to recovery is usually a pretty exciting affair. And one would normally expect some excitement this time, given that we are in the midst of the first synchronised global downturn in 20 years.

The problem is that it hasn't been much of a recession, and it won't be much of a recovery, either. Key to understanding the outlook is an appreciation for the reasons behind this unusual recession/recovery transition.

First, consumer spending cannot snap back because it never really retrenched. Pre-emptive interest rate declines and tax cuts have already done much of their work, allowing consumers to save more while still increasing their spending and preventing a full-blown recession. In particular, housing markets in both the United States and Canada have remained strong in the last six months, despite accumulating recessionary pressures. Consequently, the housing sector is poorly positioned to post a new spurt in growth.

Second, the hangover from the tech wreck persists. There is considerable excess capacity in the global economy, so it will be some time before a generalized increase in new investment spending begins to emerge.

Third, the post-September 11 increase in international risk aversion is intact. International trade faces new frictions, and global capital flows have turned more cautious. The global trading system will not return to its former glory overnight – for the foreseeable future, international trade and investment will grow more slowly than in the recent past.

Consequently, the world will see a painfully gradual recovery this year, and it will be well into 2003 before the healing process is complete. This means that the global economy will continue to operate well below its potential for the next 12-18 months, and inflation will keep drifting down. And, with inflation already low, this will mean the emergence of more and more pockets of deflation.

A company that experiences declining prices for its products faces a challenging year. Wages and other costs decline with much more difficulty than prices, and profits get squeezed in the process. These pressures are likely to be concentrated in the manufacturing and resource sectors, where international competition is the most intense. Commodity prices have bottomed, but will take some time to regain profitable levels in this economic environment. In manufacturing, there is considerable excess capacity globally, and competition for sales will be fierce.

This situation will probably spawn a new global wave of corporate restructuring. Companies facing deflation in their prices will have a strong incentive to invest in new technology or upgrades to existing systems in order to reduce labour costs. And therein lies perhaps the biggest concern for the economic outlook – this is likely to be a jobless recovery, like that of the early 1990s. This will keep consumer confidence and spending restrained, and lead to the occasional loss of faith in the economic recovery in financial markets. Indeed, it is possible for the lingering weakness of the labour market to cause the overall economy to falter early in the recovery phase – a so-called "double-dip" recession.

While these deflationary stresses will probably be very evident in the three North American economies this year, developing countries that are highly focused on commodity production (both oil and other commodities) or basic manufacturing could feel the effects even more. Major potential stresspoints will include Indonesia, Russia, and Venezuela, where the risks could also have political overtones. Major manufacturing centres, like Korea and Thailand, will face cut-throat international competition as surplus goods find their way into a crowded global marketplace.

The bottom line? The recession, modest as it was, appears to be mostly behind us, and 2002 should be a better year. But 2002 could also have an unpleasant mix of characteristics – a painfully slow healing process that generates few jobs, deflationary pockets in some sectors of the global economy, and festering economic and political stresses in key parts of the developing world. ■

Stephen Poloz is EDC's vice-president and chief economist. He can be reached at spoloz@edc.ca.

EDC Contacts

Companies with annual export sales of up to $1 million can call our team of SME specialists at

1-800-850-9626

Companies with annual export sales exceeding $1 million can call

1-888-332-3777

to be automatically connected to the regional office nearest you.

Western Canada

Lewis Megaw
Regional Vice-President

Vancouver:
Blair Wilson
Business Development Manager
Tel.: (604) 638-6950
E-mail: bwilson@edc.ca

Calgary:
Linda Niro
Business Development Manager
Tel.: (403) 537-9800
E-mail: lniro@edc.ca

Edmonton:
Karen Goss
Business Development Manager
Tel.: (780) 702-5233
E-mail: kgoss@edc.ca

Winnipeg:
Rosanne Birt
Business Development Co-ordinator
Tel.: (204) 975-5090
E-mail: rbirt@edc.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto:
Laura Gainer
Business Development Manager
Tel.: (416) 640-7600
E-mail: lgainer@edc.ca

David Little
Business Development Manager
Tel.: (416) 640-7600
E-mail: dlittle@edc.ca

London:
Jim Babirad
Business Development Manager
Tel.: (519) 963-5400
E-mail: jbabirad@edc.ca

Ottawa:
Michel Parent
Business Development Manager
Tel.: (613) 597-8688
E-mail: mparent@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal:
Jacques Lacasse
Business Development Manager
Tel.: (514) 908-9200
E-mail: jlacasse@edc.ca

Harold Riley
Business Development Manager
Tel.: (514) 908-9200
E-mail: hriley@edc.ca

Quebec City:
Jean-François Renaud
Business Development Manager
Tel. : (418) 266-6130
E-mail: jrenaud@edc.ca

Atlantic Canada

David Surrette
Regional Director

Moncton:
Serge Benoit
Business Development Manager
Tel.: (506) 851-6066
E-mail: sbenoit@edc.ca

Halifax:
Jeffery MacArthur
Business Development Manager
Tel.: (902) 442-5205
E-mail: jmacarthur@edc.ca

St. John's:
Darrell Spurrell
Business Development Manager
Tel.: (709) 772-8808
E-mail: dspurrell@edc.ca

International

Mexico:
Marvin Hough
Regional Director for Mexico & Central America
Tel.: (011) 525-387-9316
E-mail: mhough@edc.ca

Brazil & Southern Cone:
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel.: (011) 55-11-5509-4320
E-mail: cescobar@edc.ca

China:
Alison Nankivell
Regional Director for China
Tel.: (011) 86-10-6532-3536, ext 3357
E-mail: anankivell@edc.ca

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500 • Fax: (613) 237-2690 • **www.edc.ca**

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ExportWise

Published by Export Development Canada

Picture This

Saskatchewan's David Doerksen shares how he's angling his film and television company towards the international market. 10

A. Ian Gillespie
President and Chief Executive Officer

Canadian Benefits:

Nuts, bolts and other measurements

By providing a full range of trade finance services, EDC is in the business of supporting Canadian exporters and investors. More particularly, EDC's legislative mandate is to support and develop Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities.

Our support has a substantial impact on Canadian prosperity. Two fundamental measures of EDC's economic impact are its contribution to Canada's Gross Domestic Product and Canadian person-years of employment. Last year alone we estimate that EDC helped generate nearly $30 billion in GDP and more than 450,000 person-years of employment.

EDC's Canadian Benefits Policy

In addition to adhering to our legislative mandate, under EDC's Canadian Benefits Policy, the transactions that EDC facilitates must also generate (or have the expectation of generating) tangible benefits to Canada. These can take the form of Canadian content *and/or* other significant benefits to Canada. The Canadian content, or the "nuts and bolts" of an exported good, is easier to identify than other benefits. But these other benefits can be equally important contributors to Canadian prosperity, including future trade creation, R&D investment in Canada, the quality of Canadian jobs supported, the number of start-up firms which are "spun-off," and/or the maintenance of international market share.

This flexible approach reflects the growing appreciation of globalization's benefits – both long-term and short-term. It also acknowledges that a number of countries can benefit from one transaction, albeit at different points in the international trade cycle.

Globalization: win-win

Traditionally, international trade meant making a product from beginning to end in one country and then selling it in a foreign market. Nowadays, most goods we buy contain components from several countries. And those components are often made from base materials sourced from various other countries. In addition, the research, engineering and marketing could also have been done elsewhere.

This enhanced division of labour is globalization at its best. It means that a trade deal today is often more than a two-way street – *all* parties benefit in some way.

It also means that how we measure the economic benefits of trade have changed. Sometimes Canada's contributions to the global supply chain are difficult to see in the final product since they occur at early stages in the process. For example, a large U.S. consumer products company might sell millions of a particular item worldwide, and it might appear to have been made in the United States. Yet, a Canadian manufacturer might be producing a key component of that product, in the millions, because it successfully bid for the work by demonstrating that it could meet the cost and quality standards demanded by the U.S. customer.

This is but one example of how a Canadian company can be contributing to Canadian prosperity. By participating at all levels in the global supply chain, Canada reaps the benefits. However, these benefits may no longer be as easily measurable or identifiable as the "nuts and bolts" of pure Canadian content.

By applying a more flexible lens to transactions and their potential Canadian benefits, EDC is able to also consider benefits that will *ultimately* accrue to Canada. Globalization can be a win-win game, and as a Canadian Crown corporation, EDC is always working to ensure the greatest "win" for Canadian prosperity.

A. Ian Gillespie, C.I.T.P

Summer 2002

Contents

CPC Agreement No.: 40063481
MDS
2750 Sheffield Road
Ottawa, Ontario K1B 3V9

Becoming Export

By Brenda Brown

Are you among the estimated 10,000 small businesses in Canada who could be exporting, but aren't? The reasons for sticking close to home turf range from not knowing where to start, to concerns about dealing with customers you don't know, to debt collection in countries with wildly different commercial and legal systems.

Steve Cooper has long weighed these considerations and knows firsthand that the benefits far outweigh the risks. In fact, that's why he was hired as vice-president of sales and marketing by Toronto-based Oakwood Air Limited (www.heatwave-hvac.com) which has been trying, for the past few years, to break into the U.S. market for heating, ventilation and air conditioning units.

"This is a highly successful domestic company that has been in business for 35 years," Cooper says. "With that kind of enviable track record, you have two options: you can maintain the very comfortable and successful status quo or look to the next challenge, which is to grow your company through exporting."

The first step to successful exporting, he says, is research. "You've got to know your competition so that you can assess their strengths and weakness and how they get to market. Do they use distributors, a wholesaler, or a manufacturer's representative? What's the most effective way?"

The next step is to assess your product or service to see how you can differentiate it from others on the market. "There are probably any number of companies out there supplying a similar product. So what's your hook? We knew we had a quality product and, because of the Canadian dollar, could offer it at a very competitive price. What remained was differentiating our products from the rest of the crowd."

For example, most commercial air conditioners are split into two units for ease of shipping and to ensure they fit into standard elevators. This means the units require installation and assembly at the other end. The Oakwood difference: one compact unit with no assembly required.

Danielle Simoneau, chief financial officer for Unicanvas (www.unicanvas.com), a Black Lake, Quebec firm specializing in awning and add-a-room products for the residential and recreational vehicle (RV) market, agrees that you can't afford to follow the leader any more, particularly when exporting.

"It was our versatile and innovative image which prompted calls from various American firms looking for our products," says Simoneau. "We've been exporting on a small

Savvy

scale for the past few years, mainly to the eastern United States. But now we are looking to expand our export sales up to 20 per cent from eight per cent, mainly by developing our web site and participating in various RV shows in the United States."

Her interest in exporting led her to a web-based tool on EDC's web site called EXPORT *Able?* (www.edc.ca/exportable) which helps companies assess whether they are ready to take on the export challenge. Unicanvas scored 95 per cent.

Both companies have also taken advantage of EDC's Accounts Receivable Insurance, which gives them peace of mind and access to more of their operating line, because their bank knows any losses (up to 90 per cent) will be covered. This insurance also allows Oakwood and Unicanvas to offer buyers more flexible credit terms.

"Any company that develops a new market puts a lot of time, energy and money into it," says Simoneau. "With so many factors influencing the world market, these companies can't afford to lose money on their accounts receivable. Insurance is often the security they need to go ahead, knowing that at least the financial part of exporting is secure."

Export Know-How

www.edc.ca/exportable
A free on-line tool to help companies assess whether they are export-ready

http://exportsource.ca
Country and sector research and marketing advice

www.exportsource.ca/iep
Free tool to develop a step-by-step export plan

www.bdc.ca
Canada's small business bank has a Consulting Services Group to help companies become export ready

www.iboc.gc.ca
International Business Opportunities Centre offers a free service called E-Leads, matching business opportunities to export interests

www.infoexport.gc.ca/winexports
Trade Commissioner Service's database of exporting and export prepared companies

www.fitt.ca
The Forum for International Trade Training offers specialized training programs

How do you measure up against Canada's top exporters?

Find out this fall in Vancouver at the Canada Export Awards Gala, October 7, 2002, hosted by the minister for international trade. EDC will be presenting the Smaller Exporter Achievement Award.

www.infoexport.gc.ca/awards-prix

An Exporter's Guide to Contract Insurance & Bonding

By Peter McKinnon

A Canadian company is keen to bid on an engineering contract in the United States, but doesn't have the collateral to post the bid bond required by the buyer.

A small exporter lands a lucrative services contract in Mexico. There's just one hitch – the buyer is demanding a letter of guarantee.

Letters of guarantee are a type of bond issued by your bank. But before the bank will issue such a letter to your buyer, they want to know they are protected. The bottom line: the bank ties up your line of credit to cover the costs of the letter – money that you might need to deliver on the contract.

Does this sound familiar?

Welcome to the world of contract insurance and bonding, where financial institutions, exporters and buyers strive to limit exposure, protect assets and retain liquidity. Navigating this world successfully means you should understand the needs of all the parties involved in the transaction – the buyer, the exporter and the financial institution.

Contract insurance and bonding is a family of financial products that can help all three parties meet their respective needs. These products can be used during the bid phase (when a buyer calls for offers on a contract) and during the performance phase (once a contract has been negotiated).

Different phases, different needs

During the bid phase, buyers want to make sure all the exporters bidding on the project have the financial backing needed to deliver. For example, a buyer may have to pay a penalty if the contract is delayed, so he/she wants exporters to post a bond worth a percentage of the contract's value. This way, if the exporter who wins the bid doesn't ultimately sign the contract, the buyer can "call the bond" and get some of his money back. It functions as an incentive for both sides to act fairly.

Once the contract has been signed, buyers want to make sure exporters deliver, especially when it comes to meeting delivery dates. To ensure buyers don't lose money when deliveries aren't made on schedule, they will often demand what is called a performance bond. If the exporter doesn't deliver, the buyer can call the bond and recoup some of his/her losses.

Challenges for exporters

The need to post bonds can be challenging for exporters, particularly smaller companies. For example, many exporters bid on several contracts at the same time and post multiple bid bonds. This practice can tie up a hefty portion of their working capital, or bank line of credit, to obtain and secure the bonds. And if one these bid bonds is called – even if the call is later rescinded – it can lead to financial disaster for the exporter.

Performance bonds can also strain an exporter's finances. If an exporter has more than one contract on the go, he/she might be relying on payment from one to cover the costs of the other. If a buyer makes a call on a performance bond, the repercussions can be severe.

EDC solutions

At EDC, we offer a variety of solutions to help exporters overcome these challenges. Our products include:

- **Performance Security and Bid Security Guarantees** insure an exporter's bank. If a buyer calls a bond – for any reason – the bank is paid in full, freeing up the exporter's capital or credit.
- **Wrongful Call, Performance Security and Bid Security Insurance** protects an exporter if a buyer calls in a bond without just cause.
- **Surety Fronting Support** helps secure a bond if an exporter can't acquire a bond through a surety company.
- **Surety Risk Sharing** provides surety companies with additional bonding capacity. ■

Has your customer asked you to post a bond?

Is your business growing faster than your bank line of credit?

Do you need more working capital?

EDC answers these and many other questions online at: www.edc.ca/bonding

Closing the Deal:
EDC and i Trade

Export Development Canada (EDC) and i Trade Finance Inc. have a unique financing arrangement that allows Canadian exporters to accept offers that may otherwise be lost.

By Shawn Dalrymple

For many small- and medium-sized (SME) exporters, a little help is often required to close the deal. When a SME gets an order, be it large or small, foreign buyers are going to want favourable payment terms and banks are going to want assurances that their share of the money will arrive on time and in full.

For a SME, this kind of stipulation can turn a promising deal sour. Frequently, cash-flow is the deciding factor between accepting or rejecting an offer – deals get turned down or payments are missed because the right financing partners are too hard to find.

In November of 1999, Parker Gallant, the president and CEO of i Trade, and his partner Anne Aurelius, created i Trade, a privately owned finance company. They saw a gap in the market between what most financial institutions provided and what Canadian exporters needed. Aurelius says, "Our clients frequently need to work with shorter terms than the buyer wants, and this means that they will likely not have the cash to approve the sale."

In association with EDC, Gallant and Aurelius developed a unique transaction-financing program. Under the program, i Trade provides immediate cash flow to the exporter while assuming up to 100 per cent of the non-payment risk by the foreign buyer. In turn, i Trade insures their risk with EDC. Gallant notes that "with this support, the exporter can actively seek business and fill orders, and i Trade will co-ordinate credit checks and collection procedures."

In addition, EDC and i Trade have recently expanded their business relationship to include a Pre-shipment Financing Guarantee Agreement to help smaller exporters with working capital needs. EDC's guarantee can cover up to 75 per cent of a loan funded by i Trade to cover pre-shipment costs necessary to complete an export contract. "Gaining access to working capital to complete and perform an export contract is key for many small- and medium-sized companies," says Carl Marcotte, director for EDC's Small Business Financial Solutions Team. "By working with i Trade, we can help eliminate this common export hurdle."

In 2001, only one year after the agreement was struck, i Trade was involved in financing Canadian exporters to the tune of $30 million. "Clearly, exporters are finding i Trade's services to be of value since the company's business volumes have increased six-fold within only one year," says Ruth Fothergill, EDC's regional vice-president for Ontario.

For more information, exporters can call i Trade directly at 1-877-734-7773. Email inquiries are also welcome at info@itfi.net. ■

Stats on the States

Compiled by Veronica Prochazka

Quick, what percentage of Canadian exports were destined for the United States in 2001? Was it:
a) 50% b) 64% c) 79% or d) 82%

Final answer: 82%.

Canadians cannot help but be aware of the intimate trade relationship between the United States and Canada. As such, this new column "Stats on the States" will help keep you in the know on key trade-related business stats, facts and figures.

Top five Canadian sectors exporting to the United States (2001):
Automotive (24%)
Energy (14%)
Commercial Services (12%)
Forestry (11%)
Metals (6%).

Top five Canadian sectors filing for EDC insurance claims for exports to the United States (2001):
Advanced Technologies – $10.1 million
Consumer Goods – $8.4 million
Base & Semi-manufactured Goods – $4.5 million
Telecommunications – $3.5 million
Machinery & Equipment – $2.6 million

Number of U.S. public company bankruptcies (2001):
257 U.S. public companies declared bankruptcy, representing approximately $258 billion in assets (pre-petition assets).

Some of the noteworthy cases so far in 2002 have been:

Global Crossing, Ltd.	US$	25.5B	PPA*
Kmart Corporation	US$	17.0B	PPA
McLeod USA Inc.	US$	7.4B	PPA
Covanta Energy Corp.	US$	3.3B	PPA
Kaiser Aluminum Group Inc.	US$	3.3B	PPA
National Steel Corp.	US$	2.6B	PPA

*Pre Petition Assets (PPA)

What kind of statistics would be helpful to you? Email exportwise@edc.ca (subject: Stats on the States) and let us know.

QUIZ THE EXPORT WHIZ

Compiled by Veronica Prochazka

Question: **I was told that EDC now offers domestic accounts receivable insurance as well as international. Is this true?**

EDC doesn't directly provide domestic insurance cover since our mandate is to support international trade. We do, however, have an arrangement with Canada's London Guarantee which allows EDC clients to purchase both foreign and domestic accounts receivables insurance through one convenient source. For details on our full line of products, aimed at helping increase the competitiveness of Canadian exporters, please refer to the EDC Tool Kit on page 33.

Terry Burbridge,
EDC S.M.E. Product Specialist

Question: **Our company has been asked to bid on a sale of telecommunications equipment to a company in Iran, and to provide a guarantee bond of approximately US$130,000 with the bid. Can EDC provide us with any protection for this bid bond?**

First of all, to put all our readers on the same page, bid letters of guarantee are often required of Canadian exporters by foreign buyers to secure an exporter's commitment to a buyer's contract if it is chosen as the winner in a tender process. These letters of guarantee are callable on demand by the buyer and usually remain valid until a predetermined fixed expiry date.

In your case, it is important to be aware that it is common practice in several Middle Eastern countries, including Iran, to have "extend or pay" clauses included in the text of the bid letter of guarantee. Such clauses enable buyers to demand that the guarantee validity be extended beyond the original expiry date, and failure to agree to the extension could result in a "rightful" call.

As for protection for your bid bond, there are two types of risks exporters face when having to place bid letters of guarantee: wrongful call and loss of access to working capital. EDC provides protection against both of these risks.

Wrongful Call Insurance Protection: Bid Security Insurance (BSI)

Given that letters of guarantee are callable on demand without proving exporter default, exporters expose themselves to the possibility of a frivolous or wrongful call by the buyer. EDC's BSI coverage allows exporters to protect themselves against wrongful calls on bid bonds for 95 per cent of the bid guarantee value. EDC can also agree to assign any BSI claim payment proceeds directly to the bank that issued the letter of guarantee.

Working Capital Financing Enhancement: Bid Security Guarantee (BSG)

As a condition precedent to issuing a bid letter of credit (or guarantee), banks require exporters to collateralize their indemnities in the event that a payment by the bank is required as a result of a call on the bid guarantee by the buyer. Exporters can provide this collateral in the form of a cash deposit or by having the bank freeze their operating line of credit for the full amount of the letter of guarantee. As a result, the amount of working capital available to the exporter to finance his or her day-to-day operating costs is limited. To manage this constraint, EDC's BSG coverage to banks provides indirect working capital financing support to exporters by insuring the bank for 100 per cent of the bid letter of guarantee's value against the event of a payout by the bank. BSG support thus enables the exporter access to existing operating credit lines or cash reserves, which would have otherwise been pledged as security to the bank. EDC's BSG coverage is provided on a full recourse basis to the exporter, and is conditional on the exporter agreeing to reimburse EDC for any claim payment made to their bank under the BSG policy.

Tom Kowbel,
EDC Sr. Program Manager,
Contract Insurance & Bonding

Quiz the Export Whiz: **Do you have a question related to international trade?**

E-mail your questions to exportwise@edc.ca (subject: Quiz the Export Whiz) and we will try to answer two or three questions in each issue.

a Bb Cc Dd Ee Ff Gg Hh Ii Jj Kk Ll M

Les Éditions L'artichaut: Taking Language Farther

By Toby Herscovitch

Like its unique name, Les Éditions L'artichaut of Rimouski, Quebec, offers a fresh approach to French language learning – one that keeps capturing a growing international clientele.

Artichoke may seem like an odd name for a company publishing educational manuals and materials. But to Les Éditions L'artichaut founder, Ginette Tremblay, the artichoke heart is an everyday reminder that the French-language student is at the heart of her business, whether that student is in Canada or as far away as Senegal, Africa.

Tremblay's enterprise has come a long way from its start-up in 1989 by two teachers who knew nothing about business. What they did know was *what* the language student wanted and needed – a manual that was easy, understandable, and let users both test themselves and progress quickly. "Without any formal business training, my colleague Claire Demers and I opted for a strategy of targeting the real desires of customers," says Tremblay.

At the same time, Tremblay had her own learning to do. On the financial side, she discovered that "for every dollar you borrow, you need $2 to guarantee it." And on the marketing side, she quickly learned that a good product was not enough – "You need to get customers talking about it, and telling others about the satisfaction and results they got from your product."

Through seminars and training programs for teachers and other users, it wasn't long before L'artichaut manuals were entering Quebec elementary schools. Meanwhile, Tremblay was exiting her teaching career to devote herself to her new publishing career.

By 1990, articles began touting the "Artichoke method" of learning in several francophone countries – including Switzerland, France and Belgium – and Tremblay was invited abroad to present her approach. In 1994, cutbacks in Canadian education budgets started to make exporting not only an attractive idea, but a necessary one to expand the business.

A short time later, Tremblay attended a conference organized by the federal government to get small firms acquainted with services offered to exporters. "That's where I put my hands on the tool that really opened the door to the world for me – that is, EDC's credit insurance, " says Tremblay. "It was exactly what I was looking for to protect me and to protect my bank. This same EDC tool let me convince my bank to lend me more money, by taking into account my insured [foreign] receivables. This gave me more working cash and more confidence to export."

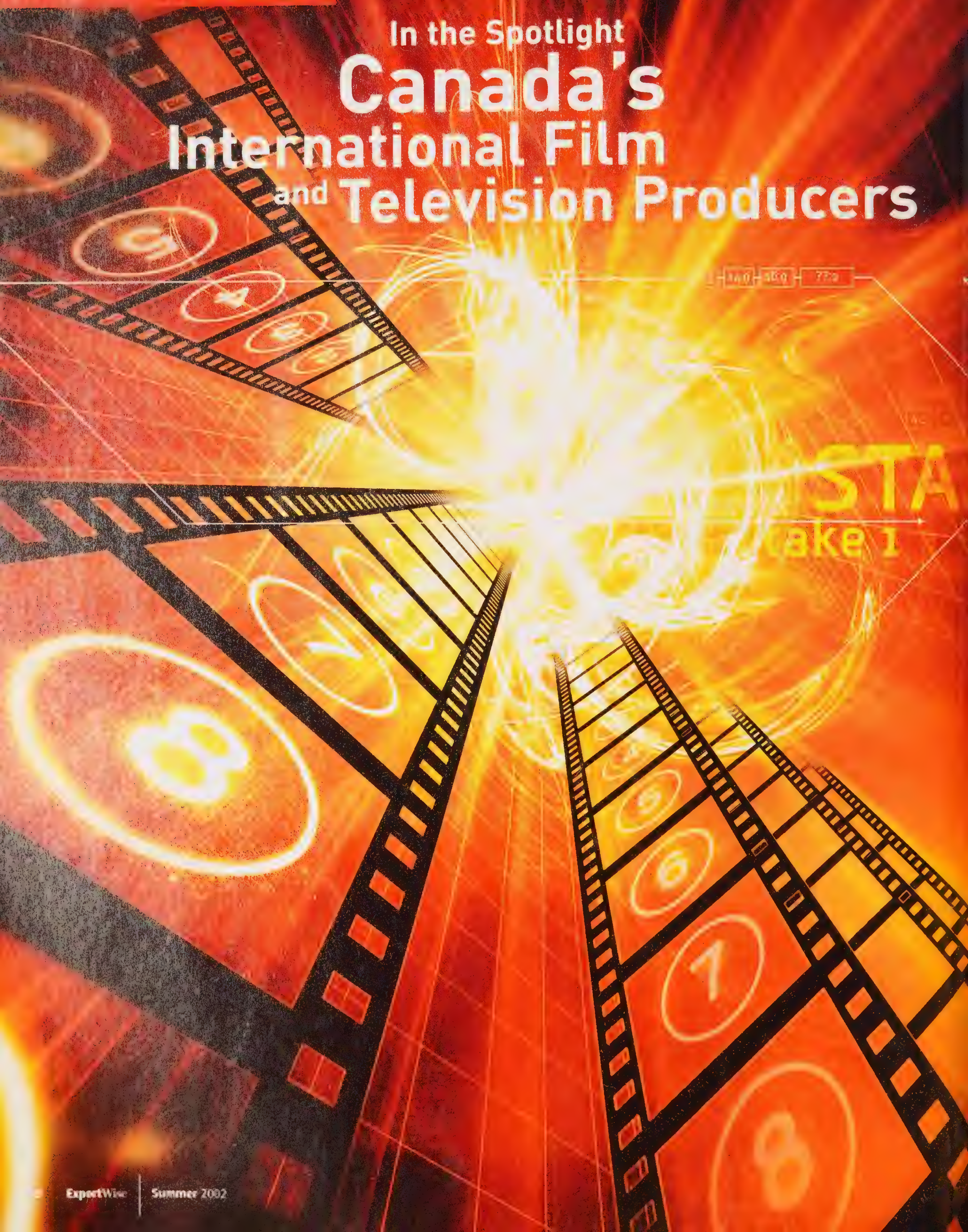
Today, L'artichaut employs six people and boasts 75 products, from manuals to multimedia versions, for all levels of learners. Over the past five years, L'Artichaut's exports have grown from 40 to 75 per cent of the company's sales. The firm is now well established in all French-speaking European markets (France, Belgium and Switzerland) and is growing its distribution in Senegal. "This market could be the gateway to Africa for us."

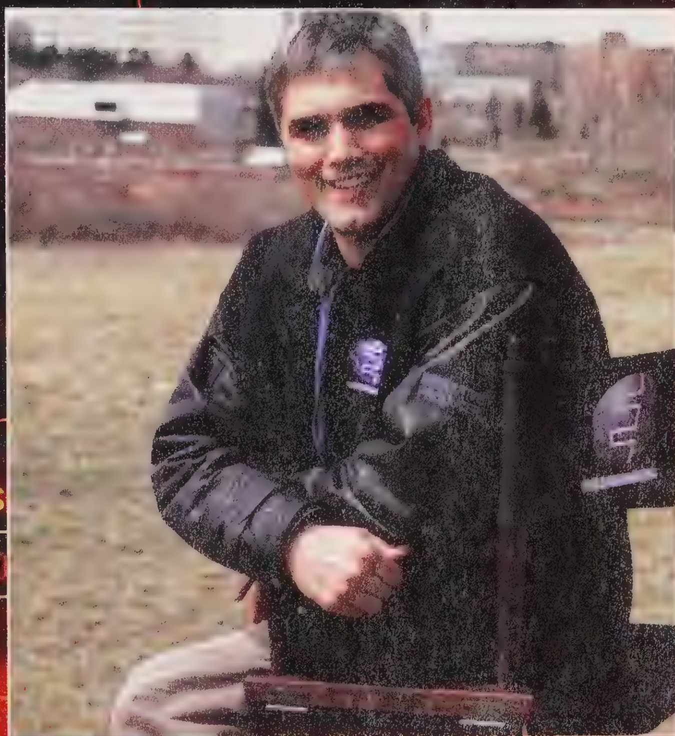
On a practical level, exporting success has meant a reduction in per-unit manufacturing costs. But the real pride comes from something more intangible. Says Tremblay, "What better validation of the originality and value of your products than being able to succeed in the highly competitive international publishing world!"

Profile

Business: French language instruction manuals and multimedia materials
Location: Rimouski, Quebec
Employees: 6
Exports: 75%
Export markets: France, Belgium, Switzerland, Senegal (Africa)
EDC relationship: Accounts Receivable Insurance
Contact: http://artichaut.ca.tc

In the Spotlight
Canada's International Film and Television Producers





By Jane Daly

Canadian production companies are stepping into the International spotlight, combining a wealth of talent and imagination to offer unique and increasingly popular stories and films for television, movie theatres and IMAX Canada's screens around the world.

Following are four fascinating scenes of film industry companies playing out in Canada today. While they hail from surprisingly diverse backgrounds, all agree on one thing: financing is the major challenge they face.

When David Doerksen says good morning to his employees, it's not unusual for some of them to screech or bark back at him. Doerksen wouldn't have it any other way. In fact, he might even pause to scratch one of his employees behind the ears.

As president of Saskatoon-based Edge Entertainment Inc., one of Saskatchewan's leading film and television production companies, Doerksen loves the fact that sometimes his co-workers are dogs, monkeys, an elephant, or even big-name stars of the human variety.

"Amazing things happen in films," Doerksen remarks, and after eight years in the business there is still a sense of awe in his voice. That statement could apply not only to Doerksen's films, but also to his own life and career – an inspirational roller coaster ride of guts and determination, happenstance and fate.

Doerksen didn't follow the typical path of going to film school or even working directly in the industry before he started up his production company. "My first involvement in entertainment was as a model. I traveled all over the world for many years, appearing in print ads, magazines, posters and TV commercials," he says.

Always thinking as an entrepreneur, Doerksen decided that if the posters he was appearing in were selling for publishers, why not produce and own the images himself? So he moved from in front of the camera to behind it, and along with two partners, launched The Edge Productions to produce classic black and white photographs to be licensed and published as posters.

In 1994, one of his posters entitled *en Passant*, featuring a young woman sitting in a Parisian café, caught the eye of Gerri Cook, then the CEO of SaskFilm (Saskatchewan Film & Video Development Corporation). Cook thought Doerksen's style might work well on a promotional poster for a film. "I never did get the poster job, but Gerri asked me how I went about producing and distributing the posters," says Doerksen. "When I told her about getting the financing, creating the concepts, finding interesting photographic locations, lining up the talent and finally, licensing the image to publishers, often on a country by country basis, she said, 'Oh, that's a lot like producing and financing movies'."

Doerksen decided that if making posters and making movies were similar, he'd rather be making movies. But how does one get started in such a high-profile industry without any previous experience or knowledge? Doerksen's answer is almost comically simple: "I went to the store and bought a 'how-to' book."

The book was called *Making It: The Business of Film and Television Production in Canada*. "It didn't sound hard to get financing for making films in this book; there seemed to be so many public funds available," says Doerksen. "Today I realize that it is in fact very complex and extremely hard." So, to launch the new venture, Doerksen approached three original investors of The Edge Productions, Edge's parent company, with his plan to move into film production, and asked them to invest an additional $10,000 each into this exciting new direction for the company. Amazingly, they agreed.

The action starts rolling

With $30,000 of seed capital in his pocket, Doerksen began pursuing his new career in earnest. "I bought literally every book and magazine on film production, marketing and financing – every one I could get – and read them all," he says. "Then I jumped on a plane to Cannes to attend my first television market [trade show], MIPCOM, and researched what type of film I wanted to produce and what type of films would sell the best."

Out of the box

- Canadians spend about $440 million a year at the box office.
- Canadian films garner only four to six per cent of Canadian box office revenue.
- 100,000 Canadians are employed directly by the film industry.
- Canadians also spend $1.4 billion on video rentals.

Doerksen admits that being a voracious reader helped him learn the ropes of the film industry quickly. "Still, you have to keep learning. And when you're spending $50,000 to $100,000 a day when you're in production, you've got the motivation to learn really, really fast!" he says. "Today my favourite books are on corporate financing, management and international marketing. If you understand the key revenue and growth principles of your business, then you can hire a great team to take care of everything else."

Doerksen's company is located in Saskatoon, which has worked out well. "When we started Edge, there were no production companies in Saskatoon focusing solely on film and television," he says. "Not only is it a strategic advantage, but Saskatoon offers a great quality of life and unique locations for film settings."

Doerksen adds that both the city and the province benefit from movie making: "There's a massive economic spin-off when you produce a film. It really has an impact on the local economy, with the amount of money a production spends on hotel rooms, car rentals, airfares, wardrobe, set dressing and prop supplies, construction materials and especially the number of jobs created during production."

Equal to his love of reading is his love of travel, and Doerksen travels to all the major film and television markets (trade shows) in Canada, the United States and Europe. Trade shows offer great product development, financing and marketing seminars, as well as opportunities to network and drum up business. At the American Film Market in 1996, he got his first big break when Los Angeles-based New Star Worldwide (then Dove Audio) approached him to co-produce *Family Blessings* – a heart-warming story based on a best-selling LaVyrle Spencer novel – for CBS television. This also gave Edge the distinction of being the first production company to attract a U.S. network movie to be shot in Saskatchewan.

Since then, the company has enjoyed tremendous growth and success. "In 1995, our revenue was $35,000," says Doerksen. "In 2001, Edge had consolidated revenues of $6.5 million, and we were named Saskatchewan's fastest growing company by *Saskatchewan Business* magazine."

Today, Doerksen performs a juggling act of overseeing project development, production, financing, marketing and distribution. Doerksen is understandably proud of his productions. One of the most successful is *Summer of the Monkeys*, based on the best-selling novel by Wilson Rawls. This fun family film was awarded the Los Angeles Film Advisory Board's Award of Excellence and the Crystal Heart Award by the Heartland Film Festival (Indiana), and was selected as a special presentation at the 1998 Toronto International Film Festival. The film then went on to compete in festivals across Canada, the United States, Mexico, South America and Europe, and was acquired by Buena Vista Home Entertainment (a Walt Disney subsidiary) for a U.S. home video premiere in 1998.

"In our first year of using Accounts Receivable Insurance, we experienced 100 per cent revenue growth because of EDC," says David Doerksen, president of Edge Entertainment.

Still shots from *Summer of the Monkeys* and *The Impossible Elephant*

Another favourite is *The Impossible Elephant*, an inspirational family film about a lonely boy who wishes for an elephant, and his wish is mysteriously fulfilled. *The Impossible Elephant* was chosen as the opening film of the 2001 Toronto International Film Festival for Children (Sprockets) and received the Silver Sprocket Audience award for best feature film.

Doerksen says that arranging for animal actors can be a challenge. "We first looked in the United States for an elephant because they're cheaper there, but animals are like people... they need immigration papers to come into Canada, and that would have taken months to arrange for the elephant we were looking at. So we got Piccolo, an elephant from Ontario's African Lion Safari, and her performance was amazing."

Doerksen believes that Edge is building a unique brand of distinctive, high quality commercial entertainment. "But making great films isn't the hard part – it's financing the movie that's hard," he explains. The humour of the situation doesn't escape him. "Unlike other businesses, you don't make a tried and true widget and then go sell it. Instead you say, 'Hey, I have a great script; I need a couple of million dollars'."

"It costs a tremendous amount of money to develop and produce movies, so you have to negotiate multi-picture, multi-year distribution deals, pooling your resources from the bank, venture capital, government funding agencies, private investors, pre-sales and distribution advances from buyers, and even your friends. It's an ongoing process."

Doerksen says that having EDC Accounts Receivable Insurance helps with the financing. "In our first year of using Accounts Receivable Insurance, we experienced 100 per cent revenue growth because of EDC," he says. "You need the money to make the film, but you can't necessarily bank all the pre-sale contracts, which generally are payable on delivery of the completed picture. With approximately 90 per cent of our business being derived from exports, EDC is integral to our production financing, generally insuring 90 per cent of the pre-sales and receivables, and allowing us to complete the bank financing and start making the picture."

This year, Edge Entertainment was listed as the fastest-growing company in Saskatchewan for 2001. "We had over 3,000 per cent growth over the past five years," says Doerksen. "2002 is also shaping up, and we anticipate total production budgets exceeding $10 million for the year." Edge's business plan is aggressive, projecting a doubling of its revenue every year for the next two years.

Like David Doerksen, John Davis didn't come by his show business career in a typical manner. His route took him by way of the sea, first as a lobster fisher, then as a boat and fish plant owner.

In 1969, during his first lobster fishing expedition, Davis recalls helping to navigate the boat in fog so thick that, standing at the stern, he couldn't see the back of the wheelhouse.

The only instruments on board were a compass, watch, CB radio – and the uncanny knowledge of the captain, Rudy Hardy. "Rudy would walk to one side of the boat, kneel down, and listen intently for the sound of the waves breaking on the stone beach of the nearest headland," says Davis. "He could actually determine our approximate location and distance from the shore by sound alone."

Today, vessels are far more technologically equipped. As Canada's Ocean Playground, Nova Scotia is also a world leader in oceanography technologies, particularly ocean mapping technology.

Ocean mapping uses multi-beam sonar, side scan sonar and electronic chart technology to unlock the mysteries of the ocean floor, Davis explains. "We can find fish, minerals, pipeline or cable sites, and, of course, shipwrecks."

When the downturn in the Atlantic fishing industry came during the early 1990s, Davis saw this as a new opportunity. "We had all this technology and knowledge about the ocean, so we decided to re-purpose this expertise into an eco-tourism company."

In 1995, Davis co-founded Eco-Nova Corporation, a company that specializes in shipwreck diving expeditions. Working with Parks Canada at Fortress Louisbourg, Cape Breton Island, Eco-Nova developed the Archaeological Shipwreck Search Program and began offering international workshops to study and explore shipwrecks in the area.

Two thumbs up

Canadian films have received more than 1,600 awards and distinctions at international festivals in 35 countries.

"We made a brochure and began filming and documenting shipwrecks at various sites around Fortress Louisbourg to promote the program," says Davis. "The idea was to get this footage aired in the European market to attract eco-tourists."

Ironically, the footage also promoted their skill at high-quality underwater filming. When John Panniker, head of programming at Discovery Channel, heard about the footage, he was very interested.

"Using that footage, we aired a pilot documentary called *Oceans of Mystery* in 1996," says Davis. "That show led to 22 hours of Canadian television and 26 half-hours for Discovery Channel International." Between 1996 and 2000, *Oceans of Mystery* aired in more than 130 countries.

In 2000-2001, aiming to further penetrate the Canadian and international markets, Eco-Nova developed a new series called *The Sea Hunters*. By its second year, the show doubled the international sales achieved by *Oceans of Mystery*, and will air in more than 170 countries.

The success was not without growing pains, however. "Entering the industry with no production experience was difficult," says Phil Sceviour, a shareholder in the business and Eco-Nova's accountant. "Committing significant resources to financial and project management was also a major challenge. Financing this growth in international sales required EDC's Accounts Receivable Insurance, and a deal through CIBC. Investing in our production has allowed us to retain a larger portion of ownership and future sales revenues."

The investment has paid off. Eco-Nova continues to grow, most recently with a CGI partnership, Ghostship Studios. And the owners also remain dedicated to the company's original roots. "We've donated underwater footage for museum shipwreck exhibits and worked with museums all over the world," says Davis. "In producing these shows, we're also preserving our underwater heritage for future generations."

"In producing these shows, we're also preserving our underwater heritage for future generations," says John Davis, co-founder of Eco-Nova Productions.

Still shots from *Oceans of Mystery* and *The Sea Hunters*

Reel deals

- The overall Canadian film and television industry is worth about $2 billion annually. $1.3 billion is in domestic production while $700 million comes from foreign films.
- Americans go to the movies more often than Canadians. Canadians average 2.8 trips to the movie theatre annually, while Americans go 4.5 times.
- Canadian feature films for direct-to-video release and pay television consist primarily of action thrillers.

Scene 3: Primesco lets viewers travel the world

Industry sector: Production, distribution and theatre development for IMAX films
Location: Montreal, Quebec
Annual Sales: $8 million
Employees: 10
Export markets: United States, Western Europe, Asia
EDC product: Accounts Receivable Insurance
Web site: www.primesco.com

"To export to any country, you must invest time and money – and a small company is always short on both," says Goulam Amarsy, president of Primesco.

Goulam Amarsy is yet another film production company president and producer who never intended to go into this line of work.

"In 1993, we formed Primesco to build giant-screen Cineplex IMAX theatres," says Amarsy. "But when I told a film producer friend about our plan, he said, 'forget about building theatres, financing films is a lot easier.'"

They went to lunch, where his friend wrote out on a napkin just how easy it would be. By the time dessert was over, Amarsy was convinced. "I said, 'This *is* easy – I can do it in three months!'"

It took three years.

Today Amarsy still has the napkin upon which the plans for *Super Speedway* were sketched out – and a lot more experience. "It took a year just to sell people on the concept of an IMAX film. Nobody knew what it was," he laughs. It took another year to strike a deal with racing car legends Michael and Mario Andretti, who are featured in the film, and finally one more year to actually make the film, shot in the United States and England.

But six IMAX films later, *Super Speedway* vies only with Primesco's most recent film, *India: Kingdom of the Tiger*, as being Amarsy's favourite. "The magic of IMAX is that the image completely surrounds you, so you feel you are actually *there*, in the Indy race car going at 230 miles per hour," he says. "If you've always wanted to go to India, IMAX can take you there – for only $8."

Because of these unique qualities, IMAX is ideally suited for destination films. Other Primesco films bring audiences face to face with wolves and bears, into a raging forest fire, and to *Lost Worlds*, which explores civilizations (not all of them human!) from the Arctic to the jungles of Guatemala.

Making films this large and beautiful does not come without its challenges, and financing is a major one. "Because of the special technology, every IMAX project costs about four or five times more to make than a regular movie," Amarsy says. "And it's a very small, niche market. There were only 110 IMAX theatres in the world when we started. Now there are 300, but compare that to 150,000 regular movie theatres."

Primesco is helping to solve that problem by building IMAX Cineplex theatres itself. "We are planning theatres in Paris, the Czech Republic, Venezuela and several other countries," says Amarsy. In April, Primesco joined the Team Canada trade delegation to India with the hope of signing a deal to build an IMAX theatre there, and is currently in discussions with several private and public partners.

"To export to any country, you must invest time and money – and a small company is always short on both," Amarsy adds. "Having a web site helps because now we can send information electronically."

And Amarsy is optimistic about the future. "Only 27 countries have an IMAX theatre, so there are still 173 to go... lots of room for growth!"

"But the best satisfaction for me is seeing kids go into a museum to see an IMAX film. Knowing you may have planted some dreams and made a difference in just one child's life, that's what makes it all worthwhile."

Scene 4: Viewers go wild for Animal Tale Productions

Location: Toronto, Ontario
Annual sales: $40 million (Chesler/Perlmutter Productions Inc.)
Export markets: U.S., France, Germany, Italy, Spain and the U.K.
Employees: ranges from 8 full-time to 150 when making a film
EDC product: Accounts Receivable Insurance

"The shifts in the industry are demanding more co-productions and creative financing arrangements," says David M. Perlmutter, co-founder of Chesler/Perlmutter Productions.

David M. Perlmutter and Lewis B. Chesler, co-founders of Chesler/Perlmutter Productions, both have a long history in the entertainment industry. Perlmutter began as child radio drama actor and later worked as a financial consultant for clients in the industry, while Chesler created shows for both Home Box Office and MGM TV.

"Perlmutter and Chesler formed their company in 1989, starting with *The Hitchhiker* television series," says Michael Cote, director of finance. "Twelve years later, we've produced almost $400 million in television and film projects, making us one of Canada's largest privately owned production companies."

Chesler/Perlmutter Productions has created films and shows in a wide variety of genres for almost every significant U.S. and Canadian broadcaster and distributor, and many broadcasters and distributors in France, Germany, Italy, the Netherlands, and the United Kingdom.

"One of our favourite genres is the family-oriented Animal Tales productions," says Chesler. "The first, *Ms. Bear*, was spurred by our instinct that there was a growing market for this type of material. The success of that film led to a sequel, *Bear With Me*, and then to the strategic decision to produce a series of films for this market."

Chesler and Perlmutter are especially excited about one of the company's latest films, *Touching Wild Horses*, which stars award-winning actress Jane Seymour *(Dr. Quinn: Medicine Woman)*. The film was produced as a Canada/Germany/U.K. co-production between Chesler/Perlmutter, ApolloMedia and Grosvenor Park.

Touching Wild Horses is an inspiring drama about Mark, a resolute teen who is sent to Sable Island to live with his reclusive Aunt Fiona after a car accident leaves his father dead and his mother in a coma.

"We wanted to broaden the scope of traditional family films to capture an adult as well as younger audience," says Cote. He adds that the scenery for *Touching Wild Horses* is particularly stunning, including the sweeping sand dunes of Sandbanks Provincial Park in Ontario. "The images of the wild horses galloping along the beach with the sun setting into the water are breathtaking."

Chesler and Perlmutter also credit part of the success of the company to its strategic focus. According to them, there is an increase in demand to fill more and larger multiplexes and more channels in the cable universe, while the appearance of new networks continues to diminish the audience base (and therefore advertising revenue) for any single program.

"These shifts demand more co-productions and creative financing arrangements," says Perlmutter. "The major challenge is to cobble together funding for each project. There is no standard model. This requires continuous awareness of financing methods used by other producers, contact with broadcasters and distributors around the world, and a nurturing of writers and other creative personnel. The results are very special films that leave the audience with a feeling of triumph for the human spirit." ■

Still shots from *Touching Wild Horses* and *Time of the Wolf*

The Film and Television Industry: *an economic perspective*

By Glen Hodgson

"Entertainment is global. Movies and television programs are no longer insulated by national boundaries. Films travel the world to every country. As the cost of making movies rises ever more, no national industry can afford to remain confined in its own landscape. We all must export or we shrink."

– Jack Valenti, Motion Picture Association

Today's film and television production industry is a global one. Estimating the total international market is a challenge, since it consists of many diverse parts, but the film market alone is US$65 billion, with the United States representing 58 per cent of total expenditure. The film and TV production industry in the United States has two clear advantages: a large domestic market as a foundation, and the fact that it works in English, the ever-growing *lingua franca* of global communication. These advantages have allowed Hollywood to accumulate significant economic power over much of the industry, particularly through its ability to create stars, raise capital and influence distribution.

Linguistic and cultural barriers can often create challenges for new entrants in the international sale and distribution of TV and film. Combined with national or local market imperfections in ownership structure and distribution, inordinate preference is given to certain types of film and TV – usually American.

While these barriers to entry are significant, they are not insurmountable. For example, an up-market Kung Fu movie like *Crouching Tiger, Hidden Dragon* can have success around the globe if it is well-made and captures the public's eye. Word of mouth is still a key success factor, and quality production can therefore occasionally overcome the other barriers to entry.

From a Canadian perspective, the relatively small size of our domestic market, and the power of Hollywood to attract away talent of all types, present some core challenges to the development of a Canadian film and TV industry. French language production has a small layer of protection, but the underlying economic forces remain the same. Yet the Canadian film and TV production industry has seen impressive growth in recent years. Data compiled by PricewaterhouseCoopers on behalf of the Canadian Film and Television Production Association indicate that the Canadian film and TV industry has grown by about seven per cent annually since 1996-7. Canadian film and TV production achieved revenues in 2000-01 in excess of $5 billion (US$3.3 billion).

Nearly 45 per cent of revenues – equal to US$1.5 billion – were foreign exchange earnings. The vast majority of foreign exchange earnings (80 per cent) consist of productions made in Canada where payments were made in foreign currency (largely U.S. dollars), or what the industry calls "foreign location shooting." Most of the remaining 20 per cent of exports represent earnings from foreign distribution and broadcast pre-sales.

Why this rapid growth? The Canadian industry has excellent skills and has benefited in recent years from a relatively weak Canadian dollar, but most importantly, it benefits from tax advantages designed to improve the industry's international competitive position, especially vis-a-vis the United States.

Can the Canadian film and TV industry continue to grow annually at seven per cent or higher? Canada's market share is still fairly small, and threats of retaliation from the United States have so far been deflected, but the U.S. industry remains vigilant and vocal. In addition, Canada is not the only jurisdiction trying to grow its share of the industry, nor the only one prepared to consider tax advantages. Given the importance of labour costs, other countries may become relatively more attractive as the Canadian industry matures and as the Canadian dollar increases in value over the next 12-18 months.

The bottom line? Recent growth rates in the Canadian industry may be hard to sustain, since there could be external challenges, both via new competition and possible threats of U.S. trade action, as well as internal factors that erode competitiveness. But for now, Canadian makers of film and TV should make the most of their role as "Hollywood North." ■

Glen Hodgson is EDC vice-president and deputy chief economist and can be reached at ghodgson@edc.ca. For extensive economic and political research on an array of topics, visit EDC's web site at www.edc.ca.

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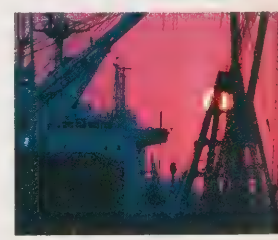

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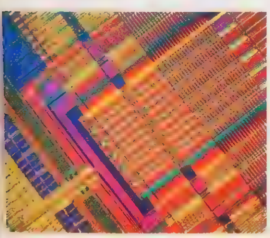

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The Race for Foreign Investment: *Will Canada Compete or Get Left Behind?*

By Charles Barrett

Foreign direct investment (FDI) is a natural extension of trade. Both facilitate the response of integrated global production systems to global demand for goods and services. The massive changes brought about by globalization have made FDI a much more efficient tool in a firm's global production and marketing strategy. In effect, foreign investment, inbound or outbound, is one channel through which global production systems meet the needs of international consumers.

Most nations actively court inward FDI, but active encouragement of outward FDI is less common. Much has been written about the positive effects, such as job creation, of inbound FDI to the host country. But outbound foreign investment can also create significant economic benefits for Canada. Future dividend flowing back to Canada is one example, since Canadian corporations benefit from foreign earnings as well as from state-of-the-art technological and managerial skills acquired through foreign holdings, partnerships and alliances. It is important for Canada to remember that investment outflows generally induce trade: a flow of Canadian export sales follows the initial investment, and the foreign country increases its future export and import capacity at the same time.

At one time Canadians worried about the alleged negative economic consequences of foreign ownership. Policy makers were concerned about the relatively low levels of R&D performance by foreign-owned firms, which contributed to skepticism about the benefits of inward FDI in high-technology industries, particularly where entry by the foreign investor was accomplished by the takeover of a domestically owned firm. But trade liberalization has now removed the motivation to use investment as a means to jump tariff barriers. In fact, recent empirical evidence suggests that policies discouraging inward FDI are likely to have net economic costs because it improves economic efficiency in the host economy by displacing less efficient domestically owned firms.

Both inbound and outbound FDI are clearly beneficial for Canada, but the relative attractiveness of Canada as an investment destination has declined. The Conference Board of Canada's 2001 *Performance and Potential* report showed that Canada, which represents only about two per cent of the world economy, attracted 3.5 per cent of global investment stock in 1999, down from 6.4 per cent in 1990 and 10.9 per cent in 1980. Australia, by comparison, has steadily increased its stock of global FDI from 2.7 per cent in 1980, to 4.2 per cent in 1990 and 4.6 per cent in 1999. The United States has consistently attracted over 22 per cent of global FDI throughout the 1990s.

This decline has not been due to a lack of government effort in promoting Canada. It is much more complex. A range of government policies, from human resource development through competition policy and fiscal and monetary policies, influence the attractiveness of the host country to foreign investors by conditioning key supply - and demand-side factors. For government to play a role in facilitating trade and investment that is in the best interests of Canadians, it will be crucial that appropriate fundamental objectives, such as enhanced employment levels, increased competitiveness, and transferring of technology, have been identified, and that policy is clearly directed towards those ends. ■

Charles Barrett is vice-president, Program Strategy and Delivery, The Conference Board of Canada, and was recently the keynote speaker at the Conference Board of Canada and Export Development Canada Symposium on FDI. He can be reached by email at barrett@conferenceboard.ca.

Central and Eastern Europe: *The Sun Will Shine*

There is an old Russian proverb: "The sun will shine in our yard, too." In other words, after a storm or upheaval, skies always clear and prospects always brighten. For the people of Central and Eastern Europe, the proverb provides an apt description of recent events, as once-closed economies open and financial outlooks improve.

Economic conditions in Russia, Hungary, Poland and the Czech Republic have come a long way since 1989. The formerly communist countries have endured radical change, and citizens survived political, social and – in some cases – military revolutions. This tumultuous era is over and these countries have established democratic institutions and free-market economies. A sense of optimism is spreading as economies adapt to a world of open borders. Opportunities emerge continually across the region.

The transition to a market economy has not come without hardship. Many of the region's countries have experienced precipitous declines in gross domestic product (GDP). Russia, for example, suffered a 50 per cent drop in GDP between 1989 and 1994. Today, many countries in the region have emerged from these post-transition recessions, but only Poland has experienced significant growth in GDP.

The rise of Poland

During a period of rapid expansion in the 1990s, Poland experienced seven consecutive years of at least four per cent growth. In 2001, this torrid streak was snapped when growth slowed to one per cent. High interest rates and a slowdown in European Union (EU) demand combined to cool the Polish economy. Recent cuts in interest rates and increased foreign direct investment (FDI) will, however, help stimulate demand during the second half of 2002. Annual growth rates of 1.5 to 2.5 per cent are expected for the next few years as Poland's government addresses the country's burgeoning deficit.

The Czech Republic on the move

The annual economic growth rate for the Czech Republic is expected to reach three per cent for 2002. Reductions in interest rates by the country's central bank are stimulating growth, and massive inflows of FDI have more than offset a shortfall in the Czech Republic's current account. Increases in both consumer spending and commercial investment are positive signs, as is the government's effort to finance restructuring of the country's banking sector.

Foreign investment flows to Hungary

Hungary continues to be the region's premier choice for FDI. Since opening its economy to Western investment, Hungary has attracted approximately US$2,000 in cumulative per capita FDI, compared with an average of US$500 for other countries in Central and Eastern Europe. Annual growth slipped below four per cent in 2001 as demand for Hungary's exports ebbed, but momentum is expected to build again in 2003.

The Russian bear comes out of hibernation

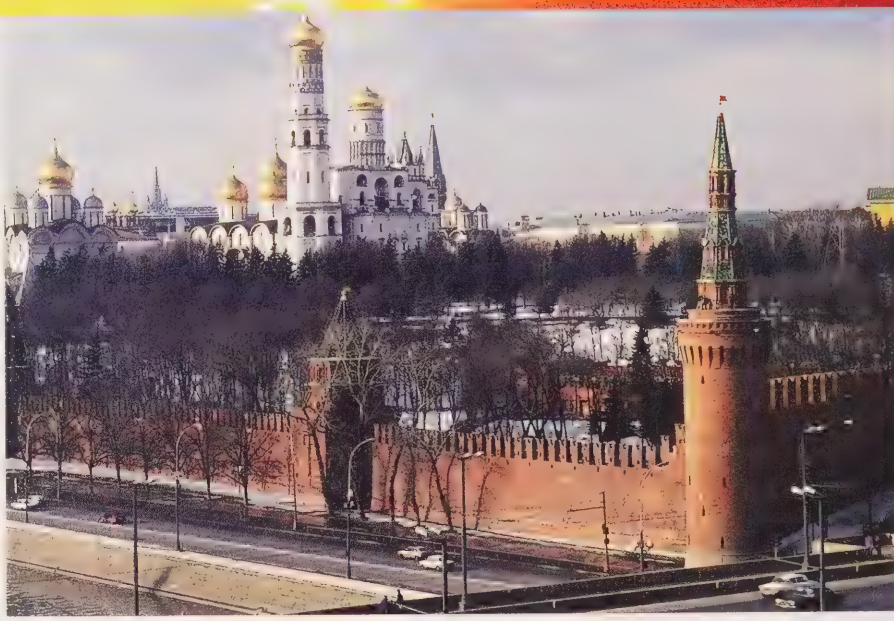
As the leading commodity producer in the region, Russia's economy remains closely tied to the prices of oil and gas. The Russian people have shown amazing confidence in the economy, evidenced by a nine per cent rise in consumer spending in 2001. Other positive signs include a five per cent increase in GDP and nine per cent jump in business investment. The Russian government has devised a strategy to deal with the country's debt, and President Putin appears keen to boost Russia's image and attract FDI.

A bright future for Central and Eastern Europe

While knowledge of specific Canadian products and companies is spotty, Canada is well respected in the region and is viewed as a trustworthy business partner. A number of Canadian companies have found that by establishing a presence in Central Europe, they are able to successfully access the EU, Central and Eastern European markets all from one central point.

The EU accession process has helped accelerate the transition to market economies in Poland, the Czech Republic and Hungary through the adoption of similar commercial rules and regulations. In general, prospects for economies throughout Central and Eastern Europe have brightened considerably during the past two years. With a combined population of more than 300 million, comprised of people well aware that goods and services can make life more enjoyable, these countries are ripe with opportunity. In Poland, the Czech Republic, Hungary and Russia, it seems as if the time has come for the sun to "shine in their yards, too."

Russia: *The Bear Awakens*



By Lorne Cutler

With an abundance of natural resources and a population of more than 150 million, Russia holds great potential for Canadian companies seeking to trade in Central and Eastern Europe.

Throughout the mid-1990s, Russia attracted growing levels of trade and investment. This all came crashing to a halt, however, with the economic crisis of 1998. In August of that year, the Russian government declared a moratorium on debt payments. The currency reserves of Russia's central bank had plummeted. The country was mired in debt, taxes went uncollected, and wages and pensions remained unpaid for months. Most leading banks collapsed.

Since then, President Vladimir Putin has led an aggressive campaign to reform the country's economy and establish a sense of social and political stability. The results have been impressive, and have benefited from a two-year period of elevated prices for oil and gas. These high commodity prices, in conjunction with tax reforms, have enabled Russia to establish a trade surplus, increase currency reserves in the central bank, pay down a portion of the country's international debt and balance the budget three years in a row. Russian entrepreneurs (is entrepreneur the right term here?)are beginning to re-invest in the country's infrastructure – perhaps the most positive sign of all.

Open for business

While many sectors have been slow to recover, overall the economy has rebounded and foreign investment is growing. In January 2002, EDC president and CEO, A. Ian Gillespie; senior vice-president of business development, Ron Dahms; vice-president of corporate communications, corporate reputation and external relations, Rosemarie Boyle; and Dennis Goresky, regional director for Central and Eastern Europe accompanied more than 200 Canadian businesspeople on a successful trade mission to Russia. The mission helped seal several deals and inspired a deeper appreciation of the opportunities to trade with Russia.

To Canadian exporters, these opportunities have never been more tangible. For the first time since the collapse of the Soviet Union, Russians have experienced three successive years of growth in per capita income. Ever-growing numbers of consumers, particularly those in Moscow and St. Petersburg, are buying Western goods. Foreign investment in the retail and consumer goods sectors continues to rise. Leading European retailers, such as Ikea and Metro, have ambitious expansions planned for Russia.

Commodity sectors recovering slowly

While foreign investment in Russia's resource sector continues to remain low, the oil and gas reserves near the Sakhalin Islands are a notable exception, attracting billions of dollars of investment.

Canadian exporters are particularly interested in the markets for oil and gas equipment, mining hardware and services, and consumer goods. In the past two years, the Canadian embassy has led four trade missions to meet with some of Russia's leading resource companies. These oil, gas and mining companies are profitable, and have excellent credit histories. They also have a growing need for capital goods and services as the sectors' deteriorating infrastructure restricts new production. EDC considers these firms potentially lucrative business partners for Canadian exporters and strong partners for EDC.

Housing sector shows promise

A three-year intensive consultative process between the Canadian Mortgage and Housing Corporation (CMHC) and Russian officials has resulted in the successful adoption of Canadian building codes for single-family wood-frame houses in Russia. There is significant demand for quality housing in Russia, and CMHC's efforts could open the door for established suppliers and

builders from Canada. The outlook for the construction and housing materials sectors is bright.

Banking sector slow to reform

The banking sector was seriously affected by the economic crisis of 1998 and has yet to fully recover. The Russian government recognizes that reform must progress quickly in the banking sector to ensure a return to economic stability, but this reform is still in its early stages. As a result, there are few Russian banks willing to offer credit for terms of more than six months to Russian buyers. Small- and medium-sized enterprises in Russia have been particularly hard hit by this shortage of mid- and long-term financing.

EDC ready to help

EDC is keen to work with the Russian government to help finance infrastructure improvements and other projects, provided Canadian companies are involved. At present, the Russian government, with its strong fiscal surpluses, has few borrowing requirements and is able to finance most projects independently. Canadian companies looking to supply the Russian oil, gas and mining sectors may wish to minimize their risks through EDC accounts receivable and bonding insurance services, or increase the competitiveness of their bid through EDC buyer financing options. For Canadian exporters to other sectors, EDC is also willing to consider short-term insurance coverage and medium-term lending for projects through select Russian banks.

With an increasing number of economic sectors showing strong signs of growth, Canadian exporters are starting to notice this awakening bear. ■

Lorne Cutler is EDC regional manager for Central and Eastern Europe and can be reached at lcutler@edc.ca.

Russian Business Etiquette: *A Primer*

By Richard Buski

Doing business in a foreign market can be difficult at the best of times; doing business in Russia, however, can be a challenge even for the most experienced entrepreneur. Here are a few tips for those venturing into Russia for the first time.

1. **Get to know your partners socially as well as professionally.** The business culture in Russia is unique. Many Russians – especially those educated during the communist era – are often unfamiliar with concepts such as accountability and mutual benefit. And most Russians believe strongly in developing personal relationships with their business partners. If you're in charge of establishing your firm's business relationships in Russia, you need to spend the time personally to establish these relationships – it's not something you can delegate or do over the phone.

2. **Seek professional advice before making any commitments.** Consult professionals with experience in Russia – especially accountants and lawyers – before signing even seemingly minor agreements. The road of investor history here is littered with potholes that you won't know about until long after you've fallen into one, and getting out is sometimes impossible.

3. **Don't cut corners on due diligence.** Three basic rules: know exactly what you're buying, from whom you're buying, and whether they have the legal capacity to sell. It is often more advantageous to build a new facility than purchase an existing one, which all too often comes complete with historical problems or obligations. Engage local experts who can ferret out the hidden issues.

4. **Work in partnership with local and regional governments.** It pays to work in a region that wants your business. Partnering with a regional government, or *Oblast*, that is interested in outside investment will make your business dealings much easier – they'll cut through the red tape in a way you can't.

5. **Be honest, forthright and consistent.** Keep your promises. Many Russians are suspicious of foreigners, and will come to trust you only if you follow through on your commitments. Don't engage in any business practices in Russia that you wouldn't engage in back home.

6. **Be a good corporate citizen.** Employ local contractors whenever possible, adhere to high environmental standards, and treat your employees well. These practices are particularly valuable if you conduct business in a small town with few foreigners.

7. **Respect the national culture.** Most Russians are well-educated and rightfully proud of their country's achievements. Exhibiting an interest in Russia's culture and history will endear you to your partners.

8. **Don't expect easy answers.** The pace of business is often slow in Russia. For example, don't expect negotiations to proceed quickly and smoothly. Trade groups such as the Canada Russia Business Forum, the Canadian Eurasia Industry and Energy Alliance, Canada Pacific Russia Trade Centre, and the Canadian Business Association in Russia can help you understand the market and make valuable contacts.

Richard Buski is country senior partner, PricewaterhouseCoopers, Russia, and presented these tips to the participants of the recent Team Canada mission to Russia.

Poland: *Central Europe's Emerging Economic Power*

By Dennis Goresky

With its growing population, rising gross domestic product, and expanding market opportunities, Poland is at the heart of Canada's trading interests in Central Europe.

Poland's recent progress has been remarkable, considering the hurdles that have been placed before it. Indeed, since the mid-1990s, the country has gone through a tumultuous period of party politics that has led to governments originating from every point of the political spectrum.

Progressive market reform

Despite the political changes, progressive market reform has moved steadily forward. For instance, most major banks in Poland – now foreign-owned – operate efficiently in a flourishing economic environment. Poland's economy is now so solid that it is widely recognized as one of the premier environments for foreign direct investment (FDI) in Europe. Moreover, financial analysts say Poland has the lowest investment risk in Central Europe over the next five years. In fact, the most pressing economic preoccupation for Poland these days is its expected entry into the European Union (EU).

Poland's economic potential has not gone unnoticed in Canada. Canadian support for Poland's entry into the North Atlantic Treaty Organization and other international bodies is a clear example of Canada's attempts to increase economic activity between the two countries. Indeed, Prime Minister Chrétien led a 1999 trade mission to Poland to enhance Canadian knowledge of this burgeoning market. For its part, Poland has organized similar missions to help encourage commercial opportunities between the two countries.

More work needs to be done

Despite the obvious potential, Canadian investment in Poland is relatively small and there is relatively little trade between the two countries. In fact, companies from neighbouring countries dominate Poland's economy, mostly as a result of geographic proximity. By establishing a permanent presence in Poland, EDC aims to overcome this disadvantage and create a formidable trading relationship (for more information, see "An On-the-Ground Perspective" on page 27).

"That is Canada"

Canadian companies seeking to do business in Poland do enjoy some advantages. Canada and Canadian business practices are highly respected in Poland; for instance, the Polish expression "that is Canada" is synonymous with "everything is perfect." Many Polish companies prefer Canada to European countries and see trade with Canada as an ideal way to diversify export and import markets.

Promising industry sectors

For Canadian exporters, several of Poland's economic sectors hold promise, notably telecommunications, housing, mining, agricultural products, power generation, transportation, and environmental technologies and services. In fact, several Polish companies in these sectors are familiar with Canadian products, having already completed successful contracts. International trade shows in Canada and Europe have led to a number of professional contacts between Canadian and Polish entrepreneurs and government officials. ■

Dennis Goresky is the EDC regional director for Central and Eastern Europe, located in Poland, and can be reached at dgoresky@edc.ca.

Business Tips for Canadians in Poland

Canadian entrepreneurs seeking to do business in Poland should heed the following business tips.

1. First, do not be coerced into a corrupt deal. Corruption does exist (as it does in most countries), so do not become involved with people or companies in whom you do not have complete trust.
2. Second, socialize with your business partners. In Poland, social interaction is often as important as other parts of a business deal.
3. Third, remain patient and persevere. Decisions in Poland often take longer than in Canada.
4. Fourth, establish a local office. Poles prefer to deal with companies with an established local presence and contact person.

Planning, patience and persistence. These are the hallmarks of all effective trading strategies. They are essential to establishing a successful business relationship in Poland. After all, capitalizing on the emerging economic strength of Poland should be at the heart of every Canadian company's trading strategy for Central and Eastern Europe.

Hungary: *Economic Pillar of the New Central Europe*

By Dennis Goresky

For centuries, Hungary has been a pillar in the economic and political life of Central Europe. It is expected to remain a mainstay in the region when it becomes part of the first wave from Central and Eastern Europe to enter the European Union (EU). For Hungary, this will be the crowning achievement in its remarkable transformation from a command economy to a flourishing free market – an achievement that should permit it to continue its phenomenal economic growth well into the future.

A sizable portion of Hungary's economic growth promises to come as a result of strong commercial ties with Canada. Indeed, Hungary already enjoys more Canadian investment than any other country in either Central or Eastern Europe.

Fundamentally sound

This should really come as no surprise. Hungary's economic fundamentals are all sound. In fact, many of Hungary's economic indicators are better than those of many current members of the EU. And despite a relatively small population of 10 million, Hungary represents a solid, stable market for high-quality, competitively-priced products.

Location, location, location

Hungary also benefits from its geographic position. Located in the heart of Europe, the country is a low-cost gateway to the rest of Europe. Recent Canadian investments in Hungary's construction and automotive-parts industries demonstrate this aptly. The country also attracts qualified people from many other countries. Slovaks, Romanians and citizens from the former Yugoslavia, along with Hungarians, comprise a young, educated, motivated workforce to staff new enterprises and consume goods and services.

Unlike many of its trading rivals, Canada is an attractive alternative, because it poses no threat to Hungary economically. In fact, Canada's medium-sized companies provide Hungary with a comfort level that makes for lasting commercial contacts. For their part, Canadians find Hungary's commercial laws easy to understand and not unlike their own.

Promising industry sectors

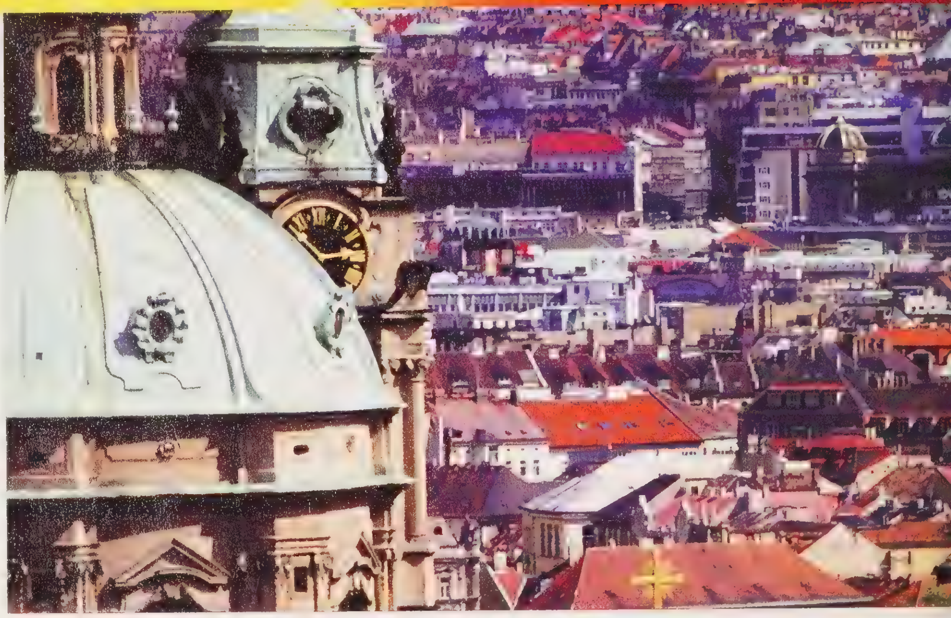
Industry sectors that have shown particular promise include transportation (rail, air, auto, and subterranean), information technology (data transmission, and Internet-related products and services), construction and building products, and agricultural products (pork and cattle genetics, and specialized foods). In the years ahead, specific opportunities are expected in telecommunications, oil and gas, and environmental technologies.

Opportunities in environment

Hungary is no different from most of its neighbours, as it requires significant effort to improve the quality of its environment. Although the EU is expected to pay for much of this clean-up, additional funds will be provided by the government of Hungary.

Hungary has emerged from its post-communism transition period as a strong pillar of the new Central Europe. It is a highly developed, open and competitive economy seeking appropriate partners. ■

The Czech Republic:
Change Brings Opportunity



By Dennis Goresky

The political, economic and social change experienced by the people of the Czech Republic over the past ten years has been nothing short of remarkable. Not only have they shrugged off nearly fifty years of communist rule, but they have also entered the new century as citizens of a different country.

When the people of the former Czechoslovakia decided to break their country apart, two new countries were created – the Czech Republic and Slovakia. Unlike most splits, however, the disintegration of Czechoslovakia was remarkably amicable. In fact, the Czech Republic used the split as a springboard, becoming one of the first countries of Central Europe to leap from a command economy to a market economy. In doing so, it has attracted more foreign direct investment (FDI) on a per capita basis than any other country in the region. It has also received consistently high marks from international credit-rating agencies, ensuring competitive financing for both sovereign and commercial projects.

On track for economic growth

Nonetheless, the Czech Republic has not been free from some growing pains. The patience of some foreign investors has been tested by problems related to slow progress on two fronts: the privatization of large state enterprises, and the restructuring of the country's banking system. Sound financial management and a revitalized reform program, however, have the Czech Republic on the right track.

A straightforward plan

While political, economic and social change has brought many new challenges to the Czech Republic, it has also brought opportunity for Canadian exporters. For Canadian exporters to maximize their investment opportunities in the Czech Republic, they must follow a straightforward plan. First, establish a local presence – either through a joint venture, partnership, agent or representative office. Second, develop long-term relationships. Third, establish an office in the Czech Republic and use it as a base for all of Central Europe. Finally, remain committed. If an initial venture does not succeed, try again; there are plenty of solid business partners in the country.

Promising industry sectors

Traditionally, Canadian companies tend to become involved in industry sectors that are key priorities of the Czech Republic government, such as telecommunications, power generation, and the environment. Other sectors of the economy – construction, transportation and agricultural products – have shown great promise, with new opportunities emerging every year. EDC representatives have also noted interest from other sectors, such as automotive parts, signaling systems, infrastructure, housing and recycling. Canadian companies are well placed to play a significant role in these industries.

Furthermore, quality consumer products produced in the Czech Republic are readily available throughout the European Union at competitive prices. Opportunities exist for Canadian companies in the consumer-products market as well.

EDC and the Czech Republic

EDC can help Canadian exporters find and exploit opportunities. All EDC products are available to Canadian exporters in the Czech Republic. Financing for exports and projects, bonding, and insurance are all useful and effective tools. EDC also sponsors initiatives with banks and companies looking to broaden supply bases beyond the European Union, Japan and the United States. Opportunity awaits Canadian companies in the Czech Republic and EDC helps them seize it. ■

Central and Eastern Europe:
An On-the-Ground Perspective

Dennis Goresky is EDC's first-ever on-site representative for Central and Eastern Europe. Working from an office in Warsaw, Poland, he will help Canadian exporters and investors conduct business in Poland, Russia, Hungary, and the Czech Republic. From 1975 to 1996, Goresky worked in the region with the Department of Foreign Affairs and International Trade (DFAIT). Before assuming his new post, he shared his views on the region with *ExportWise*.

EW: Can you tell us why Poland, and why now?

Dennis Goresky: First off, there is tremendous economic opportunity for Canadian businesses in Central and Eastern Europe: most of the countries in this region require enormous quantities of goods, services and financing.

Another factor is the upcoming expansion of the European Union (EU). In the next few years, some of these countries will join the EU and become part of the second-largest market in the world. By moving into the region now, EDC seeks to help Canadian entrepreneurs take advantage of these opportunities before these countries join the EU.

Hungary, the Czech Republic, Russia and Poland are all investment grade and all feature underdeveloped markets. Russia, for instance, is just emerging from a full-blown financial crisis and is actively seeking business partners. Canada and Russia have much in common – besides hockey – such as a harsh climate, a vast landscape and a widely dispersed population. The two countries also have some history of working together. So, by opening an office in the region, EDC will be better able to make the most of this synergy.

Warsaw, Poland, was by far the most sensible location for EDC to appoint a representative. The brand new Canadian embassy there had the space for us as well as an experienced staff familiar with both EDC and DFAIT. Warsaw also features the largest number of Canadian companies of any capital in the region. This will enable us to hit the ground running, so to speak, as business plans for most sectors of the Polish economy are already well developed.

EW: What challenges are you looking forward to tackling in this new role?

D.G.: There are several challenges ahead. Poland is our beachhead, in a sense, and we'll need to implement a proactive strategy before we move into other countries in the region. We'll have to ensure that we consider the requirements of Canadian entrepreneurs, European buyers and EDC business teams.

Another challenge is that few people in the region are familiar with Canada and the goods and services it offers. The flip side, of course, is that few Canadian companies are familiar with market opportunities in Central and Eastern Europe. EDC has already started working with DFAIT on a unified strategy for the region. All Canadian embassies in the region, for instance, have agreed to work collaboratively. Other public-sector partners from Canada have also agreed to join us and participate in planning sessions.

EW: What advice can you offer Canadian exporters or investors looking to enter these markets?

D.G.: The key is to do your homework. Perform due diligence before signing a deal. Get to know your business partner. Be patient, thorough and prudent. Canada has a good reputation in the region – use it to grow your business.

Central and Eastern Europeans tend to mix business and pleasure. Be prepared to socialize with your business partners. A night out together can guarantee a future contract. And above all, recognize that this is a regional market, not just a series of independent domestic markets. ■

Dennis Goresky will be on-the-ground in Poland in early July 2002, and hopes to welcome many Canadian firms to the region over the next few years. If you would like to reach him, full contact information is available on page 35.

Europe and the Americas

Conférence de Montréal, June 24 to 28, 2002
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The Conférence de Montréal is an international forum promoting open discussion on major economic issues with world leaders and experts in the political, economic and social spheres. This year the emphasis is on relations between Europe and the Americas.

As a major sponsor, EDC is organizing a forum on *Financial Institutions, Capital Markets and Investment in Central Europe* on June 26, to be hosted by EDC president and CEO A. Ian Gillespie.

An impressive roster of international leaders will take part in two panel discussions.*

- *Financial System Reforms* will be covered by **Dr. Kemal Dervis**, Turkish minister of state for economic affairs, **Steven Kaempfer**, vice-president of finance at EBRD, and **Christof Gabriel Maetze**, executive vice-president of HypoVereinsbank AG (Munich).

- *Investment in Central Europe* will be reviewed by **Bruno Ducharme**, CEO of TIW, and **Jean-Claude Villiard**, president and CEO of Canada Mortgage and Housing Corporation (CMHC). Bringing a corporate social responsibility (CSR) perspective to the issues is **Huguette Labelle**, chancellor of the University of Ottawa, former president of the Canadian International Development Agency (CIDA) and member of EDC's Advisory Council on CSR.

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Dennis Goresky
Regional Director for
Central & Eastern Europe
Ul. Jana Matejki 1/5
00-481
Warsaw, Poland
Tel.: (011-48-22) 584-3240
Fax: (011-48-22) 584-3195
E-mail: dgoresky@edc.ca

In Canada

Lorne Cutler
Regional Manager for
Central & Eastern Europe
151 O'Connor Street
Ottawa, Cntario K1A 1K3
Tel.: (613) 598-2745
Fax: (613) 598-2503
E-mail: lcutler@edc.ca

www.edc.ca

Russia

The Canadian Embassy in Russia
Starokonyushenny
Pereulok 23
Moscow, 121002, Russia
Tel.: (011-7-095) 105-6000
Fax: (011-7-095) 105-6051
E-mail: mosco-td@
dfait-maeci.gc.ca

Graham Rush
Minister-Counsellor
(Commercial)
graham.rush@
dfait-maeci.gc.ca

Consulate of Canada in St. Petersburg
32, Malodetskoselsky
Prospect
198013 St. Petersburg,
Russia
Tel.: (011-7-812) 316-3346
Fax: (011-7-812) 325-8393
E-mail: spurg@
dfait-maeci.gc.ca

Margarita Sandal
Commercial Officer
margarita.sandal@
dfait-maeci.gc.ca

Embassy of the Russian Federation in Canada
285 Charlotte Street
Ottawa, Ontario K1N 8L5
Tel.: (613) 235-4341
Fax: (613) 236-6342
E-mail:
rusemb@magma.ca

Russian Trade Mission
95 Wurtenburg Street
Ottawa, Ontario K1N 8Z7
Tel.: (613) 789-1222
Fax: (613) 789-2951
E-mail:
rustrade@rogers.com

DFAIT
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel.: (613) 996-7701
Fax: (613) 995-1277

Mike Reshitnyk
Trade Commissioner
michael.reshitnyk@
dfait-maeci.gc.ca

Poland

The Canadian Embassy in Poland
Ul. Jana Matejki 1/5
00-481 Warsaw, Poland
Tel.: (011-48-22) 584 31 00
Fax: (011-48-22) 584 3192
E-mail:
wsaw-td@dfait-maeci.gc.ca

Michael Wooff
Counsellor (Commercial)
michael.wooff@
dfait-maeci.gc.ca

Embassy of the Republic of Poland in Canada
443 Daly Avenue
Ottawa, Ontario K1N 6H3
Tel.: (613) 789-0468
Fax: (613) 789-1218
E-mail:
polamb@alphainter.net

Hungary

The Canadian Embassy in Hungary
Budakeszi út 32.
Budapest, 1121, Hungary
Tel.: (011-36-1) 392-3360
Fax: (011-36-1) 392-3395
E-mail:
bpest-td@dfait-maeci.gc.ca

Larry Duffield
Counsellor (Commercial)
and Counsul
larry.duffield@
dfait-maeci.gc.ca

Embassy of the Republic of Hungary in Canada
299 Waverley Street
Ottawa, Ontario K2P 0V9
Tel.: (613) 230-2717
Fax: (613) 230-7560
E-mail:
sysadmin@huembott.org

DFAIT
(responsible for Czech Rep., Hungary and Poland)
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel.: (613) 992-1449
Fax: (613) 995-8756

Pierre Boucley
Trade Commissioner
pierre.boucley@
dfait-maeci.gc.ca

Czech Republic

The Canadian Embassy in the Czech Republic
Mickiewiczova 6
Prague 6, Czech Republic
Tel.: (011-420-2) 7210
1800
Fax: (011-420-2) 7210
1894
E-mail:
AmbCanada2@netforce.cz
Prgue@dfait-maeci.gc.ca

Georges Lemieux
First Secretary
(Commercial)
georges.lemieux@
dfait-maeci.gc.ca

Embassy of the Czech Republic in Canada
251 Cooper Street
Ottawa, Ontario K2P 0G2
Tel.: (613) 562-3875
Fax: (613) 562-3878
E-mail:
ottawa@embassy.mzv.cz

API Grain Processors: *Harvesting a U.S. Market Share*

By Sally Enright

Everyone knows that wheat makes flour and flour makes bread. But not everyone knows what API Grain Processors has discovered – that there can be more to processing grain than simply producing flour.

Alberta-based API Grain Processors is using leading-edge technologies to combine the processing of four grain products in a facility that is the first of its kind in North America. And in so doing, it's pioneering a new approach to value-added food processing.

For the bakery, grocery and fast-food industries, API supplies bread flour milled to the exact specifications of each customer. And as you might expect, API also processes the high-protein vital wheat gluten that bakeries use to fortify their flour. But from wheat API also produces fuel-grade ethanol. Most of the 26 million litres produced each year are sold to the United States, where it is used to reduce fuel emissions. In addition, livestock feed, high in fibre and protein, is a byproduct of the milling and distilling processes, and is sold to the local cattle and hog industry. The end result is that API is one of the lowest-cost producers of flour, wheat gluten, ethanol and livestock feed in North America.

"What makes API unique is that we are processing all of these products under one roof, and that gives us certain logistical advantages," says Kerry Keating, general manager, API Grain Processors. Its revolutionary plant design provides the flexibility to redirect production to meet market demands. And the byproducts of each manufacturing step become part of the next manufacturing step, in a continuous process that adds value at every stage.

API's Alberta location offers the advantage of abundant agricultural resources and, over the past five years, the strongest economy in Canada. The company is one of the largest users of Canadian Prairie Spring (CPS) wheat, processing approximately 80,000mt per year.

More than 90 per cent of API's products are sold to the United States. "While we've had a few export transactions to Japan and China, right now we're operating at capacity – we're not able to target any other export markets just yet," says Keating. "But as our business grows, we would like to pursue Pacific Rim markets."

API is a young company that started exporting at the same time production began four years ago. Its grain elevator and flour mill have been operational since October 1997, and its gluten and ethanol plants have been running 24 hours a day, seven days a week since June 1998.

"We started doing business with EDC in 2000, when we were doing some refinancing," says Keating. "Our bankers were looking for some comfort before extending any more credit to us, and they referred us to EDC."

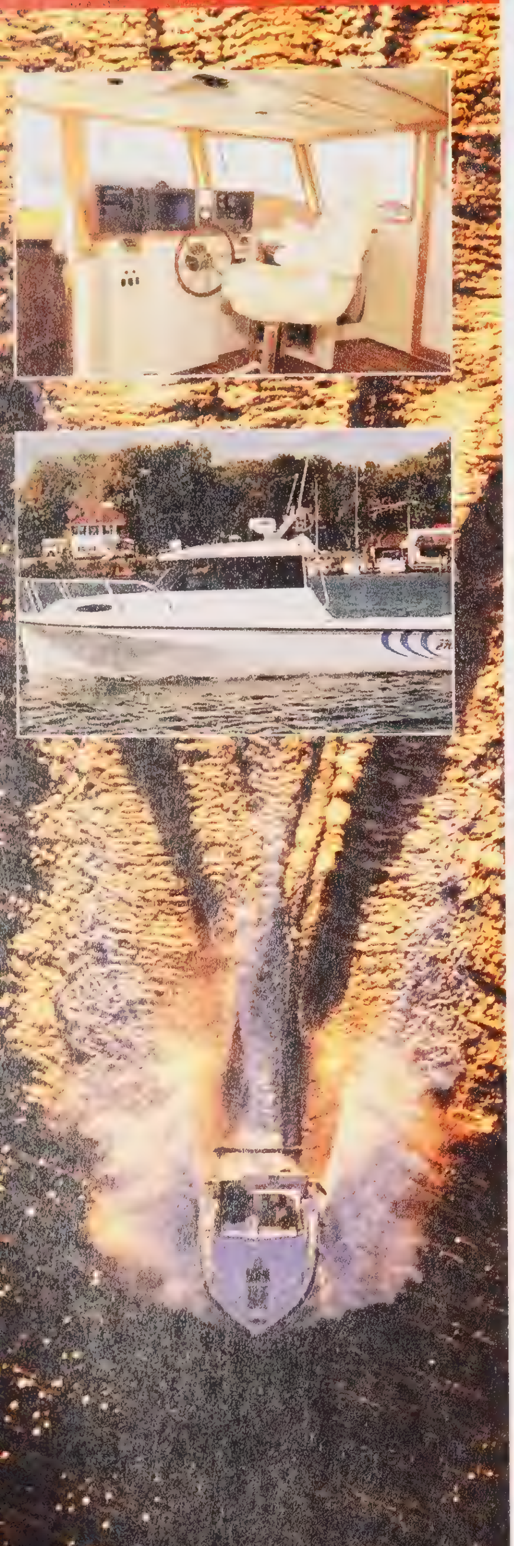
"We were spending a lot of time doing credit checks and possibly taking undue risks," adds Keating. "EDC has helped to minimize those risks and enabled us to put deals together much more rapidly." EDC's Accounts Receivable Insurance and credit checking services have not only streamlined the paperwork and research required by API when looking at potential new markets, but they have also changed the way the company does business.

"In the past, API would have shied away from business in markets such as the Pacific Rim, because of the letters of credit and payments in advance that are generally required," explains Keating. "I think that any Canadian firm that does a lot of exporting should have EDC on board. Rather than devoting time to credit checks and references, you can just concentrate on your own business and go after new markets."

The future will likely yield continued success for API Grain Processors. The company plans to expand its facility over the next five years, and develop new products and new market opportunities to increase its usage of Alberta wheat. ■

Profile:

Business: Grain processing
Established: 1997
Location: Red Deer, Alberta
Employees: 60
Exports: 90%, mainly to the U.S.
Future export markets: Pacific Rim
Export business finders: trade shows and marketing partners
EDC relationship: Accounts Receivable Insurance
Contact: www.apigrainprocessors.com



Canadian Yachts Fulfil *the American*

By Cressida Barnabe

With an increasing number of wealthy baby boomers set for retirement, the growth in the U.S. market for pleasure crafts is expanding, and Canadian boat builders are reaping the benefits. For two Canadian companies, future growth comes with greater risks. One has recently turned to EDC for help, while the other has already taken full advantage of EDC's risk management services. Find out why they both feel EDC will give them a competitive edge and help them grow their businesses.

Since 1997, New Brunswick-based Magna Marine has been using its proven hull molds to produce fishing boats. A year and a half ago, when a supplier brought forward a potential customer looking for a Canadian-made yacht, President Richard Theriault saw an opportunity to get into a growing market. With partners, he formed a subsidiary company – Magna Yachts – and began production.

Taking traditional fishing hulls – known for their strength and durability in all weather conditions – Magna Yachts finished them as 43-foot long-range cruising vessels, known as "trawler yachts." The entry-level price for these high-end pleasure crafts is US$500,000.

The company's trawler yachts are quickly gathering appreciative attention. Dealers are now approaching Theriault to represent his other line of products, including nine models ranging from 25 to 45 feet. "But working with a dealer means that I will be building the boat on spec and will not receive any payment before the boat is delivered, something I don't do now...but if I don't do it, I can't sell the dealer," explains Theriault. "This will require more cash flow than I have, so I recently approached EDC for some help."

For Theriault, using a range of insurance and financing products from EDC will "fit the bill" and give him the competitive edge he needs as he grows his export business.

U.S. buyers invest in Canadian tradition

PDQ Yachts of Whitby, Ontario has a long tradition of building sailing and power catamarans. Since 1988, the company has sold 150 yachts, ranging from 32 feet in length to its latest 42-foot model. The company's strong reputation in the U.S. market, combined with an aging population that is beginning to retire, is creating excellent business growth. This, in turn, is creating greater demands on its working capital. Turning to EDC has helped PDQ not only access working capital, but it also provides security to their U.S. buyers.

"With our new 42-foot Antares model, we put in place a progress payment schedule during the long construction period," explains Rory McGuinness, vice-president of sales and marketing for PDQ Yachts. "We also had to provide performance security to financial institutions in the United States. That's when we turned to EDC."

With EDC's Performance Security Guarantee (PSG) program in place, PDQ's bank receives 100 per cent coverage, allowing them to issue an equal value bank guarantee to the buyer. The guarantee covers the progress payments PDQ receives during the construction period, without tying up their working capital. (See also "An

Has your buyer asked you to post a bond to guarantee your bid, your performance, or to secure progress payments?

EDC can help! Check out our range of contract insurance and bonding services by visiting www.edc.ca/bonding.

Dream

Exporter's Guide to Contract Insurance and Bonding," page 6.)

"Without EDC, it would have become much more difficult for us to have the progress-payment schedule in place," says McGuinness. "We would likely have had to do some self-financing, which would have eaten into working capital."

"We have a great relationship with EDC's Jim Wood and David Little," he explains. "They have done a phenomenal job for us – to the point that we are ecstatic about the service we receive, and it will become a big part of how we will be able to promote PDQ going forward."

Does he foresee a long-term relationship with EDC? "Absolutely!" says McGuinness. "We are already planning new products, and invariably any new products we design and build will likely be larger, so we will be utilizing EDC for a long, long time. We see this relationship with EDC as a means to build our company and our product line." ■

PDQ Yachts

Business: sailing and power catamarans
Annual sales: $4 million
Employees: 56
Exports: 90%
Export markets: U.S.
Export business finders: Web site, advertising, trade shows
EDC relationship: Performance Security Guarantee
Contact: www.pdqyachts.com

Magna Yachts/Magna Marine

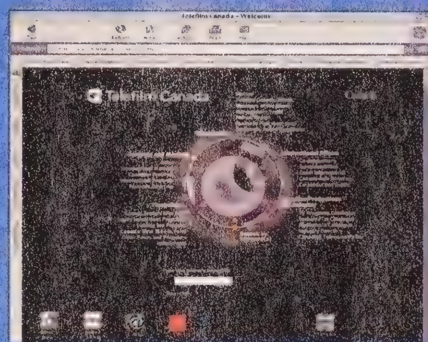
Business: trawler yachts, pleasure crafts, commercial fishing boats
Annual sales: $7 million
Employees: 75
Exports: 40%
Export markets: U.S.
Export business finders: Advertising, trade shows
Contact: www.magnamarine.com

Film/Television and Central/Eastern Europe

Information Resources

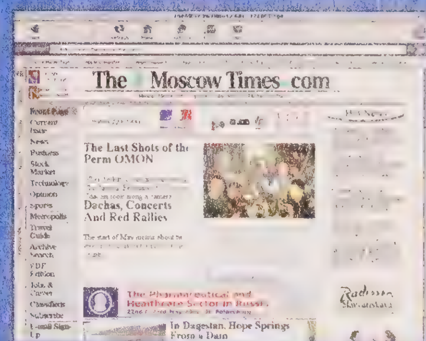
By Veronica Prochaska

The web sites highlighted below provide valuable information to complement this issue's industry (page 10) and geographic (page 20) features.



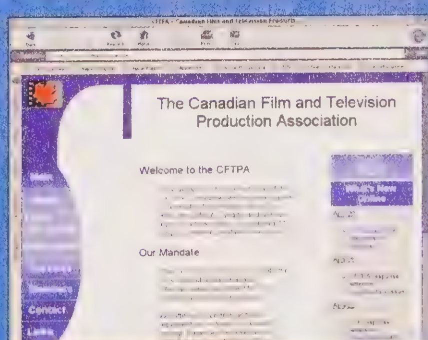
www.telefilm.gc.ca

Telefilm Canada is a federal cultural agency dedicated to the development and promotion of the Canadian film, television, and new media industry. The site offers information on financing, festivals and markets around the world, international affairs, and catalogues listing the industries' productions for the year.



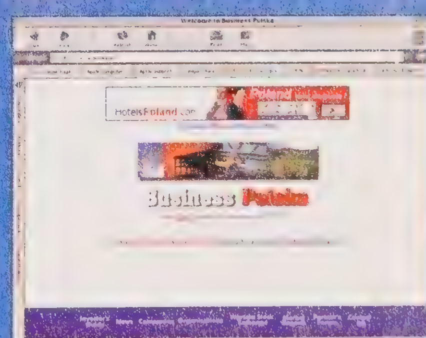
www.themoscowtimes.com

Latest news on events in Russia in English. This easy-to-navigate site offers news, business, stock market, technology, opinion and jobs and career sections.



www.cftpa.ca

The Canadian Film and Television Production Association (CFPTA) web site provides information on its services (industrial relations, international marketing and mentorship/internship programs) in addition to an event listing, various publications and an extensive list of links to other industry related web sites.



www.polska.net

Find a cornucopia of information here, ranging from Polish news stories in papers across the world to market reports and the Warsaw Stock Exchange. Also, access to a listing of Polish companies by product, a contact list for various organizations promoting business in Poland, and an Investor's Guide covering fundamental facts, figures and opportunities in Poland.

E-mails to the Editor

To the Editor,

It was with great pleasure that I read, for the first time, *Exportateurs avertis* (*ExportWise*), Spring 2002 edition.

I would like to know if I could receive all back issues. I teach international business at Victoriaville Cégep and would like my students to have the opportunity to read your excellent magazine!

Thank you for your consideration!

Denise Landry
Cégep de Victoriaville
Victoriaville, QC G6P 4B3

Dear Editor:

I work for the Canadian Gift & Tableware Association as its Editor of *Retail News* magazine and Editor of *Wrap-Up*, our monthly member newsletter. We are an association of giftware importers, exporters, distributors and wholesalers.

In the last issue of *ExportWise*, there was an article on "The perils of unsecured accounts receivable." I am writing to request the ability to make this article available to our members via our Fax-On-Demand service and on our web site, of course crediting the magazine. I feel that the article will be of great interest and value to our membership.

I'll look forward to your reply.

Best Regards,

Erica Kirkland
Editor
Retail News Magazine

ExportWise

Editor
Julie Harrison
jharrison@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateur avertis* is led by Anne Tanguay, in collaboration with Maguy Robert.

Contributors
Cressida Barnabe, Charles Barrett, Brenda Brown, Richard Buski, Lorne Cutler, Shawn Dalrymple, Jane Daly, Sally Enright, Dennis Goresky, Toby Herscovitch, Glen Hodgson, Peter McKinnon, Stephen S. Poloz, Veronica Prochazka, Richard Schuster

EDC Advisory Board
Rosemarie Boyle, Brenda Brown, Donna Choquette, Marc Deschênes, June Domokos, Andrew Douglas, Ruth Fothergill, Linda Graupner, Walt Hutchings, Suzanne Joberty, Leslie Kenway, Diana MacGibbon

Printing Services
Dollco Printing

EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at **www.edc.ca**.

→ Insurance

Accounts Receivable Insurance (ARI) – Covers a Canadian exporter against 90 per cent of export and domestic credit losses (domestic cover provided by London Guarantee Insurance Company) if the buyer can't or won't pay. ARI gives exporters peace of mind and access to new working capital by converting an outstanding receivable into a bankable asset, which in turn increases their ability to compete by being able to offer longer credit terms.

Political Risk Insurance – Helps Canadian companies protect their investments abroad, covering up to 90 per cent of losses.

Political Risk Insurance of Loans – This expanded form of Political Risk Insurance offers increased protection for investment loans.

→ Financing

Direct Loan – A financing arrangement between EDC and a foreign buyer, or a foreign borrower on behalf of a foreign buyer, for the export of a Canadian capital good or service. Medium-term export loans involve credit terms greater than two years and turn the exporter's sale into a cash sale.

Line of Credit – EDC has set up pre-arranged lines of credit with foreign banks, institutions, or purchasers, under which the foreign borrower lends the necessary funds to foreign purchasers of Canadian capital goods and services. A full listing of EDC Lines of Credit is available on EDC's web site at: www.edc.ca/loc.

Equity Investment – EDC can invest as a subsidiary investor in projects and companies that generate direct, substantial, identifiable, export-related benefits to Canada.

→ Contract Bonding

Bid Security Guarantee (BSG) – Protects banks from any calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – Protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – Indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

Direct Surety Bond Support – By providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

→ On-line Services

Export *MarketInsight*: www.edc.ca/e-reports – EDC's Economic Reports monitor political and economic events and gauge opportunities in more than 200 markets. This service is available at no charge to EDC customers and is also available through an annual subscription.

EXPORT *Check*: www.edc.ca/exportcheck – For as low as $60, Canadian companies can find out whether EDC considers their foreign buyer insurable for a specific transaction as well as some key summary credit and financial information. For more details about the buyer's credit and financial history, a Dun & Bradstreet Business Information Report can also be purchased.

EXPORT *Protect*: www.edc.ca/exportprotect – Canadian exporters can insure a single transaction of up to US $250,000. If a foreign buyer is in EDC's database and is considered insurable for the transaction, coverage is available immediately through a quick on-line application process.

e-Performance Security Insurance: www.edc.ca/bonding – Exporters can now apply, accept and pay on-line for EDC Bid or Performance Security Insurance (see Contract Bonding).

→ Small Business

Small Business Accounts Receivable Insurance – Accounts Receivable Insurance protects an exporter's outstanding receivable assets. EDC will insure export and domestic sales and if a buyer can't or won't pay, policyholders can make a claim for up to 90 per cent of the outstanding receivable with minimum administrative requirements. You can call 1-800-850-9626 to speak with an underwriter and put coverage into place over the phone.

Master Accounts Receivable Guarantee (MARG) Program – EDC can help smaller exporters obtain up to $500,000 in additional working capital from their bank by guaranteeing the operating line which is secured by all of the exporter's foreign accounts receivable.

NorthStar Trade Finance – This public-private sector partnership provides fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available on-line at www.northstar.ca.

Simplified Contract Bonding – A streamlined application/approval process has been developed for SMEs who require contract or surety bond guarantees.

Pre-shipment Financing – To help finance the pre-shipment working capital needs of smaller exporters, EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

Interested in an up-to-date list of all of EDC's available Lines of Credit (LOC) worldwide? They're on-line at: www.edc.ca/loc.

Will Higher Oil Prices Hit the Economy with Both Barrels?

Tensions in the Middle East are being blamed for higher oil prices, and are making forecasters worry about the durability of the economic recovery. But higher oil prices are mainly a symptom of improved global economic health, making it unlikely that they could cause the economy to falter.

by Stephen S. Poloz

Oil prices have marched steadily higher in the early months of 2002, raising concerns about the sustainability of the global economic recovery. Markets are worried that higher prices will take money out of consumers' pockets, while at the same time boosting inflation, thereby causing central banks to raise interest rates sooner than they otherwise would. Such a combination could, indeed, hit the economy with both barrels.

The price of a barrel of West Texas Intermediate bottomed last November at around $18, and topped $29 in mid-May, an increase of more than 50 per cent. Most of the rise occurred during March, in the context of increasing tensions in the Middle East. This has fed the misconception that higher oil prices are a temporary phenomenon that will dissipate after some resolution is brought to the region.

It is important to keep recent oil price levels in context. Prices fell to a low of close to $10 in the wake of the Russian debt crisis of late 1998, and then rose steadily through the global economic boom of 1999-2000 to reach nearly $35. Then the global slowdown of 2001 took some of the excess demand out of the market, causing prices to fall into the $25-30 range from January-August last year. This stability in prices was the product of quick actions by OPEC producers, who nimbly reduced their output, cumulatively by five million barrels per day, in order to keep a reasonable demand/supply balance.

This strategy faltered in late 2001, however, as the terrorist attacks of September 11 caused a more widespread economic slowdown, particularly in air travel. Oil prices fell below the OPEC target range for the next few months. However, aggressive interest rate cuts paved the way to an economic recovery, which is now clearly underway. Accordingly, there was every reason to believe that oil prices would rebound to more normal levels over the course of this year. Our forecast was that as the recovery emerged, OPEC would gradually restore some of the supply it took off the market last year, in order to keep prices contained in the mid-$20 range.

Thus, while it may be that tensions in the Middle East have caused oil prices to jump above their fundamentals, the fact that the global recovery is emerging much more quickly than many expected is playing the more important role. Accordingly, even after Middle East tensions have subsided, oil prices are likely to remain in the mid-$20 range. In other words, rather than hampering the recovery, this increase in prices is mostly a consequence of the recovery.

Will higher oil prices feed inflationary pressures and force central banks to raise interest rates quickly, thereby halting the recovery? This is very unlikely. Rising interest rates will also be a feature of the return of the global economy to normal. The analogy is like that of driving a car: to accelerate the car, the driver presses down on the accelerator, but as cruising speed is reached, he eases back on the gas. The car does not lose momentum, because easing up on the gas is very different from hitting the brakes.

What if oil prices spike even higher, into the $30-40 range? That could be a different story, but the main consequence would be a slowdown in economic growth, and an easing of fundamental inflation pressures. Measured inflation would rise, of course, but in a one-time, mechanical fashion. Central banks would not be deluded into forcing the economy through another bout of recession to control such an event. In fact, they would respond by holding interest rates down even longer, thereby supporting economic growth until oil price pressures had passed.

The bottom line? Oil prices in the mid-$20s represent little more than a return to normal, mostly in light of the evident recovery in the world economy, and therefore pose no threat to the upturn. A sudden spike in oil prices would be a different matter, but that would simply prolong the period of low interest rates until such time as the recovery was assured. ■

Stephen Poloz is EDC's vice-president and chief economist. He can be reached at spoloz@edc.ca. For extensive economic and political research on an array of topics, visit EDC's web site at www.edc.ca.

EDC Contacts

Companies with annual export sales of up to $1 million can call our team of SME specialists at

1-800-850-9626

Companies with annual export sales exceeding $1 million can call

1-888-332-3777

to be automatically connected to the regional office nearest you.

Western Canada

Lewis Megaw
Regional Vice-President

Vancouver:
Blair Wilson
Business Development Manager
Tel.: (604) 638-6950
E-mail: bwilson@edc.ca

Calgary:
Linda Niro
Business Development Manager
Tel.: (403) 537-9800
E-mail: lniro@edc.ca

Edmonton:
Karen Goss
Business Development Manager
Tel.: (780) 702-5233
E-mail: kgoss@edc.ca

Winnipeg:
Brent Prior
Business Development Manager
Tel.: (204) 975-5090
E-mail: bprior@edc.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto:
Laura Gainer
Business Development Manager
Tel.: (416) 640-7600
E-mail: lgainer@edc.ca

David Little
Business Development Manager
Tel.: (416) 640-7600
E-mail: dlittle@edc.ca

London:
Jim Babirad
Business Development Manager
Tel.: (519) 963-5400
E-mail: jbabirad@edc.ca

Ottawa:
Michel Parent
Business Development Manager
Tel.: (613) 597-8688
E-mail: mparent@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal:
Jacques Lacasse
Business Development Manager
Tel.: (514) 908-9200
E-mail: jlacasse@edc.ca

Harold Riley
Business Development Manager
Tel.: (514) 908-9200
E-mail: hriley@edc.ca

Quebec City:
Jean-François Renaud
Business Development Manager
Tel. : (418) 266-6130
E-mail: jrenaud@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Moncton:
Serge Benoit
Business Development Manager
Tel.: (506) 851-6066
E-mail: sbenoit@edc.ca

Halifax:
Jeffrey MacArthur
Business Development Manager
Tel.: (902) 442-5205
E-mail: jmacarthur@edc.ca

St. John's:
Darrell Spurrell
Business Development Manager
Tel.: (709) 772-8808
E-mail: dspurrell@edc.ca

International

Brazil & Southern Cone:
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel.: (011) 55-11-5509-4320
E-mail: cescobar@edc.ca

China:
Alison Nankivell
Regional Director for China
Tel.: (011) 86-10-6532-3536, ext. 3357
E-mail: anankivell@edc.ca

Mexico:
Marvin Hough
Regional Director for Mexico & Central America
Tel.: (011) 5255-5387-9316
E-mail: mhough@edc.ca

Poland:
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel.: (011-48-22) 584-3240
E-mail: dgoresky@edc.ca

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500 • Fax: (613) 237-2690 • **www.edc.ca**

The Jack Pine, 1916-1917, National Gallery of Canada

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Fall 2002

ExportWise

Published by Export Development Canada

A Capital Idea

After 21 years as friends and business partners in the highly competitive hotel business, Ottawa's Hume Rogers and Jonathan Horwitz know how to capitalize on a capital idea. 10

A. Ian Gillespie
President and Chief Executive Officer

Canada's Arts and Culture: *A Competitive Advantage*

As Canadians strive to prosper in the global economy, we are fortunate to be moving from a position of strength. Our economy is creating jobs. Our public finances are healthy. Our trade performance is best-in-class.

These achievements give us more than just bragging rights – they represent key selling features for promoting Canadian exports and attracting to Canada the high paying jobs, successful businesses and capital investment that fuel growth. If we are to succeed in branding Canada as the world's preferred supplier of high-quality goods and services and as the location of choice for business investment, we must showcase our nation's key strengths at every available opportunity.

The importance of Canada's arts and culture scene to these branding efforts cannot be overstated. Indeed, when we stop to reflect upon how far we have come as a nation, we immediately recognize the interconnectedness of a nation's defining attributes – historical, social, political, corporate, and artistic and cultural. Our cultural heritage has, at every stage in our country's development, helped define who we are and where we are going. And in the face of today's often homogenizing forces of globalization, it is more critical than ever to maintain a distinguishable national identity. A strong and confident cultural base carves out a nation's unique identity on the global horizon, and therefore marks itself as a competitive advantage.

Embodying Canada's face to the world, our artists and creators can be our most dynamic and effective ambassadors. On your next trip abroad, ask someone what he or she knows about Canada. Those who cannot name our political or business leaders are likely able to name a few of our most acclaimed creative successes – from Tom Thomson* to Alex Colville, Stratford to Cirque du Soleil, Robertson Davies to Margaret Atwood, Glenn Gould to Diane Dufresne, and Yousuf Karsh to Atom Egoyan.

Canadian artists and creators have already shown they have the drive and energy to compete with the best in the world. Between 1996 and 2000, goods exports in Canada's arts and culture sector jumped 50 per cent, and exports of services rose 30 per cent – making arts and culture one of the fastest growing sectors in the Canadian economy.

A rich Canadian arts and culture scene is important to trade and growth for other reasons. Communities that offer high-quality, innovative theatre, dance and music are better positioned to draw the talent needed to operate successful businesses, and the investment dollars to fund successful new enterprises. Vibrant theatre, music, art and literature will entice international visitors, and their all important vacation dollars, to Canada. And venues, such as the new Portrait Gallery of Canada opening in 2005, are key for showcasing Canada's rich cultural heritage.

Clearly, arts and culture is about much more than economic growth. Our artists, writers and performers inspire and challenge us to see things differently, to reflect and marvel at the human experience, to come together as Canadians.

As an active promoter of Canada's international competitiveness, EDC views selling the Canadian brand abroad as an important part of our work. From our ethical business practices, to our disclosure and environmental review policies, EDC strives to contribute to Canada's reputation for integrity, reliability and excellence abroad. From our efforts to foster an export culture among Canada's youth, to our sponsorship of community programs, we seek to go beyond our day-to-day business of delivering leading-edge financial services, to make meaningful contributions to Canadian society. We support the arts because they help us better understand how we see our country and our nation within a larger global context. We believe that identity is vital to the success of Canadian exporters and investors.

In today's fast-paced, competitive world, Canadian businesses have to be creative, innovative, confident, assertive and looking to the horizon for what lies beyond. Our artists and creators – past, present and future – help us to reach these goals. They deserve our support. ■

A. Ian Gillespie

A. Ian Gillespie, C.I.T.P

** EDC was the presenting sponsor of the Tom Thomson Exhibition at the National Gallery of Canada.*

Fall 2002

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Front Cover and Contents photos by Doug Millar

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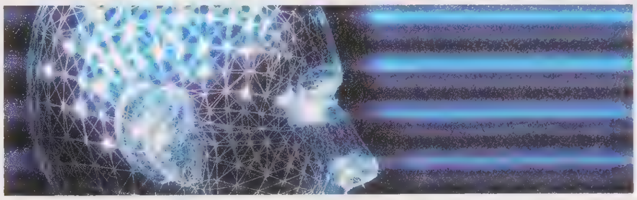

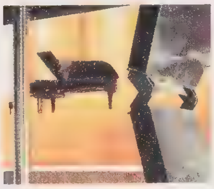

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Building Bridges with Your

By Laura F. MacLellan

One of the most common reasons an export sale falls through is because the exporter has not made adequate preparations with their bank. Too often, exporters arrive on a banker's doorstep at the eleventh hour, too late to prepare the best financing solution. There are three prevailing financing failures – and all are avoidable.

1. *Exporters think they cannot offer credit terms on open account.*
2. *Large orders are lost because an exporter cannot fill it in a timely manner – or at all – due to cash flow constraints and lack of vendor credit.*
3. *A buyer asks for a performance guarantee bond and the exporter cannot raise the requisite funds for the bond.*

As part of your marketing strategy, you need to get your banker on side from the beginning. The ability to finance your export is key to your success and should be an integral part of your pricing and marketing strategy. Whether it is the need to draw upon a source of funding prior to a large shipment, or the capacity to offer credit terms to your buyer, you must be aware of the tools to meet these challenges.

Reality check: your buyer will ask for credit terms

Your prospective buyer will expect and ask for credit terms. Embrace it! If you cannot offer this, and on open account, you may automatically be out of the game in certain markets and industry sectors. Anticipate this reality and arrange in advance with your bank to have an insured line of credit to finance your foreign receivables and apply for Accounts Receivable Insurance with EDC.

With this form of insurance as security, a bank can fund your costs, once you have shipped. You can pay your suppliers or working capital loan and turn another cycle. Once tuned into this secret weapon, exporters can double or triple sales in a year!

Savvy exporters have credit insurance pre-approvals done prior to approaching a potential buyer, putting them in an excellent and powerful position to negotiate price. Pre-approvals

Bank

also provide the exporter with knowledge on how strong or weak a buyer is, so he/she can avoid wasting time and money chasing deadbeat buyers.

Foreign buyers understand how credit insurance works and will oblige you with the information needed to get the credit terms they want. The larger the transaction, the more comprehensive the financial and credit information required. A refusal to provide information is a credit warning in itself.

The classic "Catch 22" of exporters solved

A large order may max out your regular operating line of credit and vendor goodwill. This dilemma can be solved by arranging for additional working capital from your bank, backed by a Pre-shipment Guarantee from EDC. You will need to demonstrate a track record of performance to receive this kind of export support, as well as provide information on the transaction and the buyer. Some banks may even apply on your behalf. Many banks have an EDC Master Guarantee in place to make the process go quickly.

EDC's Pre-shipment Financing Guarantee gives a bank the collateral required to extend a line of credit for you to purchase the necessary raw materials, packaging, subcontracted labour and shipping to get the order out the door and shipped. With EDC support, a bank will be able to lend more than would otherwise be the case, usually at the same rates you would normally pay, and making your credit more attractive to the bank.

In situations where your buyer requires assurance of your ability to deliver quality by deadline or to secure your bid downpayment, he/she may request a letter of guarantee in the form of a standby letter of credit from a commercial bank for a portion of the transaction. EDC's Performance Security and Bid Security Guarantees (PSG or BSG) can be used as collateral by a bank to issue the letter of guarantee without tying up your valuable working capital.

Working smarter with your bank

Financing experts consistently advise exporters to heed four clear rules.

#1: *You must find the right banker.* Not just the right individual, but also the right commercial outlet and bank. Some banks admit the path to an expert is not that clear-cut. Each bank has a completely unique route map.

Seek a real trade specialist who knows about the range of tools that can give you leverage and ultimately lower your risk and bank costs. Bankers that know enough about export programs to structure and deliver the right program for your export business can be rare. The trick is finding that banker who has expertise, is interested in building your business, and won't dismiss you because you are "too small."

"I suggest going to the specialized trade unit at a bank from the outset because while some commercial managers know trade, some don't. You are dependent on them to understand the deal to get your credit approved. Pre-shipment financing, which is what SMEs are usually looking for, requires specialized knowledge. Only trade finance experts are going to be familiar with government credit-enhancing programs and guarantees."

—John P. Fulton, Vice-President, Western Canada
Global Trade Finance & Financial Institutions
TD Securities Inc.
Email: john.fulton@tdsecurities.com

#2: *Timing is money.* Do not fulfill your own gloomy predictions about how your banker is going to react by going to him/her when there's hardly any time to handle your problem.

Application approvals for guarantees and insurance are not instantaneous. A new customer transaction may have to go through a series of tests by a bank before a decision to fund can be approved. A commercial bank assesses your business holistically: by balance sheet, by transaction and by what other benefits your account brings to the bank. Banks have predetermined credit policies, having already defined their appetite for risk … how far they will go with any one country, company or type of transaction. Your business or transaction may not fit their criteria, focus or expertise.

Alternative financiers will have specific expertise and techniques that will permit them to consider the transaction and your performance track record first, and rank your balance sheet second. These firms do not want to be your full-service banker and will likely work closely with EDC and trade-focused banks. However, they will still need information on your company, your buyer and the transaction.

“Our clients, who are generally SMEs, often come to us through bank or EDC referrals. Many deals have to be done 'under the gun' because the exporter has not taken the time to get his 'ducks in a row' prior to shipping. Ideally, we prefer that exporters take care to fulfill requests for information and to understand the process. Sometimes they are in such a hurry that they do not obtain necessary financial statements on their buyer, or don't really communicate clearly with the buyer on how the financing will take place.”

— *Anne Aurelius, Executive Vice-President*
i Trade Finance, Inc.
Email: aaurelius@itfi.net

#3: *Bankers don't like surprises.* Relationship banking is something both banker and client must work on together. To nurture bankers, keep them informed of the good and the bad. Be professional in presenting information. Prepare them in advance of your plans and goals. Ask their advice. Look at them as additional executive consultants to your business. Some firms have even had their banker assist in choosing their Chief Financial Officer or credit manager.

“The key thing is timing – more than anything else – especially if the prospective exporter is new to the bank. Leaving the pricing, method of payment and credit terms to sometime after the sales contract has been signed is dangerous. A sufficient profit margin, as well as all costs, need to be reflected in the sales price – including banking or financing charges. They all have to be built in. The goal of making the sale is to get paid – not just making a sale.”

— *R.W. (Wing) Morse, Head of International Trade, Ontario*
RBC Global Services
Email: wing.morse@rbc.com

#4: *Get educated.* Consider it an essential investment in the growth and stability of your business to understand the terminology, process and methods of payment and financing of cross-border transactions. Don't underestimate the value of this knowledge. It can be your greatest competitive edge.

“Some SMEs have more experience than others. Most are familiar with domestic banking services, but have a very limited knowledge with respect to international trade financing solutions. It is vital for Canadians involved in international trade to learn more about the less familiar, more specialized trade products. Our trade-specific web site (www.tradeservices.hsbc.com) provides a complete tutorial on trade finance.”

— *Reesa Shurgold, Senior Manager*
Trade Services (Business Development)
HSBC Bank Canada
Email: reesa_shurgold@hsbc.ca

By following these four rules, you can build a strong relationship with your bank – an essential bridge to export success.

Laura MacLellan is managing director of Think On Consulting. The firm specializes in trade strategy, trade finance, and treasury and risk solutions to exporters, governments, NGOs, and banks in Europe, North and Latin America. For more information, email ThinkOnConsult@Bigfoot.com.

Risk-mitigate Your International Contract

As Canada's export contracting agency, the Canadian Commercial Corporation (CCC) has been helping Canadian exporters reduce the risk of international business through sound contracts. Here are some CCC risk-mitigating tips to consider when negotiating your next export contract.

1. **Prepare for the possibility that one or both parties may not perform in accordance with the contract terms.**
   - Include recourse options and remedies in the event of a contract default.
   - For disputes, specify the rules governing arbitration, the arbitrator and the country of arbitration.

2. **Use clear language to avoid misunderstandings.**
   - Define product specification requirements, payments terms and overall contract objectives.
   - Identify remedial action or penalties for terms or conditions that are not met.

3. **Investigate the pitfalls that can lead to possible shipping delays in foreign markets before signing an export contract.**
   - Identify all required export permits.
   - Develop delivery schedules that can accommodate unexpected delays at the border, particularly in regulated markets.

4. **Minimize the risk of non-payment in cases where a buyer perceives that the product fails to meet specifications.**
   - Define the process for product inspection and acceptance.
   - Establish a method of payment that satisfies your risk tolerance.
   - Seek more favourable payment arrangements with your buyer by citing your compliance in previous transactions.

For more information about building export contracts on the best possible terms and conditions, call the CCC at 1-800-748-8191 or visit www.ccc.ca.

Stats on the States

Compiled by Veronica Prochazka

With half of 2002 behind us, a mid-year status report on the state of trade in the United States seems only fitting. As such, the following values represent U.S. export and import figures* from January to May 2002, according to the U.S. Census Bureau of Economic Analysis.

U.S. exports categorized by end-user commodity

	2002	2001
Foods/Feeds/Beverages	20,001	20,369
Industrial Supplies	63,770	71,356
Capital Goods	119,202	145,673
Automotive/Vehicles	33,231	32,260
Consumer Goods	34,452	38,537
Other Goods	13,756	14,015

U.S. imports categorized by end-user commodity

	2002	2001
Foods/Feeds/Beverages	19,656	18,725
Industrial Supplies	103,775	126,059
Capital Goods	114,376	132,675
Automotive/Vehicles	83,406	79,864
Consumer Goods	114,066	112,462
Other Goods	20,151	20,129

Despite only a marginal decrease in export and import activities between Canada and the U.S. during the month of May, trade between the two countries still suffers significantly (as can be seen through cumulative trade activity values from January to May 2002) as a result of the U.S.'s turbulent economic end in 2001.

	May 2002	May 2001
U.S. exports to Canada	14,630	15,108
U.S. imports from Canada	18,827	19,603

	2002	2001
U.S. exports to Canada	67,098	72,058
U.S. imports from Canada	87,709	97,017

*Values are in millions of dollars.

THE EXPORT WHIZ

Compiled by Veronica Prochazka

Question: I own and operate a four-season resort in Atlantic Canada. At the moment, about 60 per cent of my bookings are from U.S.- and European-based tour operators. I think I can grow my inbound travel business from these markets, but the tour operators won't pay in full in advance. They want me to accept their travel payment vouchers, but I'm worried I won't get paid. Can EDC help me in any way?

EDC can definitely help. When you sell a tourism product or service to an inbound free independent travel (FIT) or group visitor that is booked through a foreign or receptive Canadian tour operator, EDC considers this an 'export sale.' As such, you are eligible for our Accounts Receivable Insurance (ARI).

With EDC's ARI in place, 90 per cent of any inbound tourism losses from unredeemable travel payment vouchers are covered if your buyer – the tour operator or issuer of the voucher – can't (insolvency) or won't (default) pay. That's the peace of mind you get with ARI, which is especially critical today given the recent deterioration of tourism credit quality standards worldwide.

Not only can you grow your inbound tourism business by offering credit or open account payment terms, but you can also use the insured receivables to access a new line of credit. Call our dedicated tourism toll-free number for more information: 1-866-339-4487 (9:00 a.m. to 5:00 p.m., from anywhere in Canada).

Andrew Douglas,
Director, S.M.E. Services

Question: I am trying to find out what credibility a finance instrument from Angola, such as a government guarantee, would have for public low cost housing? Would EDC accept such an instrument?

Angola is currently in a difficult financial position with tight liquidity and low foreign exchange reserves. As a result, the only possible way for EDC to consider supporting transactions in this market would be by having projects with foreign exchange earning capacity (which would not generally be possible in the housing sector). Based on foreign exchange earnings, offshore structures where country risks are mitigated could be considered such as debt service payments through escrow accounts and acceptable offshore guarantees, rather than the guarantee of the state.

June Domokos
Regional Vice-President,
International Markets

Question: I'm a foreign buyer of consumer goods and am interested in your direct loans to foreign buyers. My company purchases a lot from the United States but has had trouble breaking into the Canadian market. Can I get a direct loan or financial support to enable me to purchase Canadian goods?

The answer to your question is somewhat dependent on the type of goods you intend to purchase. EDC's lending program focuses on providing direct loans to foreign buyers of Canadian-produced goods and services. Provided that your company is a creditworthy entity and that the goods and services which you are buying meet EDC's Canadian Benefits Criteria, we would normally be able to propose a loan structure to finance your purchase.

However, due to international agreements to which EDC adheres, the length of credit periods we are able to offer is directly related to the type of Canadian goods supplied. Consumer goods are eligible for a maximum credit period of six months. Since a term this short does not lend itself to direct lending, EDC financing is generally only available to foreign buyers of quasi-capital goods or capital goods and related services.

Geoff Bleich,
Financial Services Manager,
Medium & Long Term Insurance

The responses given in "Quiz the Export Whiz" are for general informational purposes only and not intended to provide specific advice and should not be relied on as such. No action or decisions should be taken without independent research and professional advice. EDC is not liable whatsoever for any loss or damage caused by or resulting from any inaccuracies, errors or omissions in such responses. EDC reserves the right to modify the text of any question to protect the identity of the questioner.

Quiz the Export Whiz:
Do you have a question related to international trade?
Email your questions to exportwise@edc.ca (subject: Quiz the Export Whiz) and we'll try to answer them in a future issue.

Hothouse Delivers Cool Designs

Edmonton-based Hothouse Design Studio creates and manufactures sleek, contemporary and inspired furniture. Its cool designs and hot marketing are heating up sales in Canada and the United States.

By Cressida Barnabe

Dennis Lenarduzzi
Vice-president, Hothouse Design Studio

For ten years, Hothouse Design Studio of Edmonton, Alberta has prided itself on taking innovative furniture and home accessories ideas from concept, to manufacturing, to showroom floor – all under one roof.

"Because Hothouse is a design-driven manufacturer, we have the flexibility to look at a market or customer need and create a design to specifically meet that need," explains Dennis Lenarduzzi, vice-president, Hothouse Design Studio. "We can then fulfill each step of the process and deliver a final product."

In addition to its studio and manufacturing facility, Hothouse has two retail locations, one in Calgary and one in Edmonton. The company not only increases its margins by selling directly to customers through their retail locations, but also benefits from instant customer feedback on designs.

Hothouse's Beavertail rocker

Canadian furniture hits home with U.S. buyers

In 1995, Hothouse was at a point where it thought it had a product line that could make the leap across the border and sell well in the United States.

"We focused our energy on the International Contemporary Furniture Fair in New York. We geared our product, catalogue and marketing around the show," explains Lenarduzzi. "To distinguish us and help make us 'exotic' in the American market, we built on the Canadiana look – sort of the 'Roots' of furniture – the subtleties and clichés, and played on it in our marketing and design."

For example, Hothouse's Beavertail rocker got its name and form from the Canadian beaver, but the true inspiration was the traditional Canadian bent willow rocker. Lenarduzzi explains, "We played on tradition to create a modern piece that works equally well on a deck or in someone's living room."

Response to the Canadiana-inspired furniture was a hit: Hothouse came back from the show with 50 new customers and its business has grown from there. But so have its risks. Hothouse learnt what many companies learn when doing business with smaller U.S. retailers; the actual physical distance between Hothouse and a buyer results in a long order cycle and it can take a while before you can collect payment.

Hothouse turned to EDC for its Accounts Receivable Insurance to give them a comfort zone when doing business in the United States. "The receivables insurance has covered any question marks, such as buyer creditworthiness, that we might have had and provides us with a layer of assurance," explains Lenarduzzi. "With our larger accounts, if you get instant EDC approval, you know you are going to have a smooth ride. It has worked so well that we have extended it to our domestic sales."

Hothouse is now looking at other EDC programs, such as Pre-shipment Financing, to help it adapt to growth. "Our business has changed considerably since we started exporting," he says. "We're moving toward fewer customers and larger orders, so Pre-shipment Financing would add an amazing layer to our cash flow."

Hothouse plans to head into Europe, but it is still focusing heavily on the American market. It is doing more business with larger U.S. retailers such as Room and Board, Target, and Crate and Barrel, and pushing the envelope with their contemporary designs, changing what you'll see in stores in the years to come. ■

Profile

Business: Wholesale and retail furniture design studio
Employees: 35
Annual sales (2001): $2.75 million
Exports: 85%
Export markets: U.S.
Strategic markets: Europe, Southeast Asia
Export business finders: One-on-one sales trips; trade shows
EDC relationship: Accounts Receivable Insurance
Contact: www.hotfurniture.com

SMALL BUSINESS IS BIG BUSINESS IN CANADA

Capital Hill Hotel's executive suite.

There's an old saying that "necessity is the mother of invention." This certainly seems to be the case with Canada's small- and medium-sized businesses, who are thriving and prospering despite uncertain economic times. Today, these businesses represent roughly half of Canada's economic activity and total employment.

Following are three stories of inspiring entrepreneurs who share their tales of triumph with us – from a creative director who experienced an Oscar win for best animated short film, to the managers of a family-owned hotel who know what it's like to literally work from the ground floor up.

Photo: Doug Millar

A Capital Idea

By Brenda Brown & Maxime Charbonneau

You just never know when a great business idea will take root.

For Jonathan Horwitz, president of the Ottawa-based Capital Hill Hotel & Suites, it happened while he was out mowing his grass. Passing the time with his neighbour, an employee of EDC, Horwitz was told about a kind of insurance that just happened to be the perfect fit for his hotel business.

"Because foreign tour operators work on tight profit margins and there are literally thousands of middle-men and wholesalers offering these services, everything in this industry is about building relationships and trust," says Horwitz. "Many of these operators run their business from a small office with only a bunch of telephone lines, so they don't have a lot of collateral. What they bank on, as do we, is their reputation and track record."

The ABCs of Accounts Receivable Insurance

- EDC's basic policy costs $250 a year for companies with less than $1 million in exports
- Costs are based on three criteria: export type; foreign buyer's country; and credit terms
- Exporters tell EDC who their foreign buyers are and then EDC does the credit checks
- Outstanding receivables are declared monthly
- A premium is paid on the "credit portion" of the sales declared every month
- For example, if a Canadian hotel is doing $100,000 worth of a business with a U.S. tour company, and half of that amount is covered by prepayments or cash payments, the premium is based on the remaining $50,000. The total of that premium is determined by the buyer's country (e.g. U.S. would be about 1 to 1 1/2 per cent)

Helping Canadian Tourism Companies Manage Credit Payment Risk

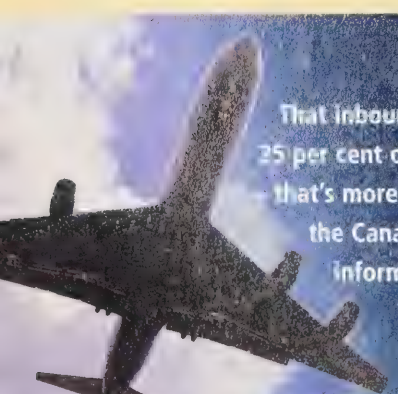
If you've ever had trouble redeeming your travel payment vouchers or collecting from a foreign tour operator, you may want to know about insurance that will help you cover these risks, and more.

Called Accounts Receivable Insurance, 90 per cent of your inbound tourism losses are covered if your tour operator won't or can't pay. Not only will this payment security help you sleep better, it also provides the opportunity to help you grow your business with existing and new foreign or receptive tour operators by allowing you to offer your buyers something they want: credit or open account payment terms.

"This type of security is especially valuable given current market conditions and the recent deterioration of tourism credit quality standards worldwide," says Andrew Douglas, EDC's director of Small Business Services. "It provides the industry with the confidence they need to do more inbound travel business and helps to make Canada's tourism product more acceptable worldwide."

Tourism suppliers may also be able to turn their payment vouchers – outstanding accounts receivable – into a new source of short-term working capital because financial institutions will often consider EDC's insurance as a form of "security."

Companies with inbound tourism sales of up to $1 million can call toll-free 1-866-339-4487 to have this insurance put in place over the phone. Companies with over $1 million in sales can call 1-888-332-3777 to be automatically connected to the closest regional office.



Did you know?

That inbound tourism accounts for about 25 per cent of all Canadian service exports – that's more than $16 billion, according to the Canadian Tourism Commission. For information on EDC's support to the tourism industry, call toll-free **1-866-339-4487**.

"Then something unthinkable like 9/11 happens and an already fragile industry is sent reeling," adds Hume Rogers, the Capital Hill's general manager. "Like thousands of others in the industry, we faced significant losses when one of our largest foreign tour operators went bankrupt as a result of the ensuing economic fallout."

The source of concern is that foreign tour operators "pay" hotels like the Capital Hill with a voucher for each person they book into the hotel. But what happens when the hotel can't redeem these vouchers, or your foreign tour operator can't or won't pay?

For Horwitz and Rogers, the answer was EDC's Accounts Receivable Insurance, which covers up to 90 per cent of their inbound tourism losses if the buyer doesn't pay. This, in turn, allows them to offer more credit to their buyers and turn outstanding accounts receivable (vouchers) into a new source of working capital since banks often view the insurance as a form of security.

This is the kind of innovative business decision that has allowed the Capital Hill – one of the few major independent hotels in Ottawa – to flourish and grow over its 46-year history.

"Because we have no chain affiliation and associated large advertising budget, word of mouth is everything," says Horwitz, whose father Phillip established the hotel in 1956. "We have built our reputation as a hotel that offers top-notch service and comfort at a reasonable price, in the heart of downtown Ottawa. Our success is all about friendly service, affordability, great facilities and location, location, location."

Constantly reinvesting profits back into the hotel has been the company strategy, adds Rogers, which ensures that the hotel doesn't looked dated or rundown. "Investing each year makes more business sense to us than trying to come up with millions to do major renovations every five years."

The hotel boasts more than 150 rooms and suites, attracting a stable roster of business people and meeting participants from across Canada, and tourists primarily from Germany, Great Britain, South America and the United States.

Horwitz introduced Rogers to the hotel business back in their high school days, and they have been business partners and close friends for more than 21 years.

"We literally worked our way up from bellhop to top job, which means we know the business from the ground up," says Rogers. "We thrive on the challenge that comes with running our own show. We make the decisions and then live and learn from them."

Profile

Business: Independently-owned hotel
Location: Ottawa, Ontario
Employees: 50 to 80, depending on the season
Export markets: Germany, U.K., South America, U.S.
EDC relationship: Accounts Receivable Insurance
Contact: www.capitalhill.com

No "Bridge" Too Far for Technomarine

By Bonita Williams

The Abu Dhabi International Marina Sports Club, pictured here against the Abu Dhabi, UAE, Skyline, was completed by Technomarine in early 2001.

When it comes to keeping customers afloat, Technomarine rises to the top. The Quebec-based company designs and builds floating docks and breakwaters, ferry landings and gangways for marina owners and developers around the world. With some 20,000 berths, 8,000 linear feet of floating breakwaters, and hundreds of gangways and bridges in waters throughout the Middle East, Asia, the Americas and Europe, Technomarine has gained a worldwide reputation for innovative solutions to even the most complex harbour challenges.

Technomarine was founded in 1979 by Yves Lepine, an avid sailor who had learned about aluminum floating technology in France. A tough Canadian economy in the 1980s compelled the small company to seek opportunities for growth and stability in international markets. "By developing leads in Europe, Asia, the Middle East, as well as North America, we could insulate ourselves from downturns in any one part of the world," explains John Juliano, marketing manager for Europe, the Middle East and Asia. Today, 98 per cent of the company's $10 million annual output is exported. Contracts range from $20,000 for a small marina buying replacement gangways to $5 million turn-key projects that can test even the largest company's capacity.

In pursuit of lucrative tourism dollars, waterfront development projects around the world are increasingly featuring housing, hotels, shopping malls, tourist attractions, as well as world-class marinas. Despite its small size, Technomarine is proving it can handle the swell in opportunities. The company is currently wrapping up a project in Turkey (Turgutreis) worth US$3.2 million, which is follow-on business from a similar project in nearby Port Göcek. In both cases, the customers needed marinas that could accommodate yachts of all sizes, while withstanding hurricane-class winds, unique tide and seabed conditions. "Our success in Port Göcek was a real selling feature for the developers at Turgutreis," notes Juliano. "They were able to see first-hand that a small but innovative Canadian company could deliver top-notch solutions and work to very tight deadlines with local suppliers."

Adding that no two projects are the same, Juliano says that flexibility is the key to success. Technomarine takes pride in its dynamic team of engineers, architects, technicians, manufacturing and sales specialists who support projects from design through to project management and installation. "We continuously invest in new products and approaches to meet local market needs," adds Juliano. "Two years ago we added concrete to cater to American preferences for concrete over aluminum pontoons. In places like Turkey, we are experimenting and testing project installation approaches that rely on local expertise and talent."

Technomarine cites EDC's support as a key competitive advantage, particularly when it comes to securing the larger turnkey contracts. "We offer superior rather than lowest cost solutions," says Juliano. "When EDC financing is part

of our sales package, our customers can look beyond our size and past the cheaper alternatives to our superior value proposition." EDC became Technomarine's risk management partner during the company's first international ventures in Philadelphia and the U.K., and most recently provided financing for both projects in Turkey. Technomarine regularly seeks out EDC downpayment guarantees, as well as the bid and performance bonds so critical to any small company's efforts to compete for big projects.

Next time you pull your "megayacht" into some exotic harbour in the Mediterranean, check out the moorings to see if they are the product of a not-so-small Canadian company that specializes in handling big waves. ■

Profile

Business: Design, manufacture and installation of floating marina and docking systems
Location: Repentigny (near Montreal), Quebec
Established: 1979
Employees: 50
Annual sales: $10 million
Exports: [illegible]
Export markets: Argentina, Barhain, Bermuda, Canary Islands, Colombia, Cuba, Cyprus, Egypt, Greece, Japan, Kuwait, Lebanon, Malaysia, Malta, Mexico, New Zealand, Panama, Portugal, Qatar, Saudi Arabia, Singapore, Turkey, U.A.E., U.K. and the U.S.
Contact: www.technomarine.ca

You have the genius. Let's bank on it now!
That will be the buzz on the streets across Canada from October 20-26 as the Business Development Bank of Canada and its business partners pay tribute to the talents and achievements of Canadian entrepreneurs during Small Business Week. Every year, Small Business Week activities – conferences, trade fairs, seminars, workshops and business luncheons – bring together pioneers in the new economy who are fostering prosperity throughout the country. As well, 13 entrepreneurs will be honoured in October in Vancouver, B.C. with a Young Entrepreneur Award. EDC is sponsoring the EXPORT Achievement Award which will be presented to all of the 13 winners. Check out BDC's web site at www.bdc.ca for news about activities in your area.

Productions Pascal Blais Inc. Draws Attention to Animation

By Michelle Stevenson

Productions Pascal Blais Inc. scoops up an Oscar: (from left) Pascal Blais, Jean-Yves Martel (behind), Bernard Lajoie and Alexander Petrov.

For a small Canadian firm looking to make its mark in the film industry, a finer moment can hardly be imagined. In March 2000, millions of people around the world were watching the telecast of the Academy Awards when the Oscar for best animated short film was awarded to The Old Man and the Sea, a film co-produced by Productions Pascal Blais Inc. of Montreal.

While Productions Pascal Blais Inc. had already been successfully working in international film and television markets, the Oscar certainly helped get the world's attention.

The company was formed in 1983 by its president and creative director, Pascal Blais, to provide traditional animation services. It quickly became known for its high-quality work, and soon established itself as a producer of film and television animation. As the company grew, it also broadened its range of animation services. The company now offers a wide variety of styles and techniques, including traditional cel animation, stop-motion and clay animation, computer drawing, even mixed-media and scratch-on film techniques. It currently operates as a one-stop animation shop, with a well-equipped studio in a 10,000 square foot space in downtown Montreal.

Last year, Montreal-based Productions Pascal Blais Inc. won the contract to re-draw the face of Christmas for Coca-Cola.

© Coca-Cola

Productions Pascal Blais Inc. produces animated television advertisements in various languages for major customers in Canada, the United States, and Mexico, as well as South America, Europe, and the Far East. Its creativity and artistic innovation have brought it big business: Productions Pascal Blais Inc. counts among its clients such household names as Labatt, Nestle, General Mills and Coca-Cola. Its ads have won praise from clients and the industry, along with many international awards, including the prestigious Mobius Advertising Award in 1999. "Over the years, we've worked with some of the greatest ad agencies in the world, refining and sometimes even redefining the art of animation," says Blais.

By 1997, this abundant creativity prompted the company's move into a new market: animated film. Its first effort, the short film The Old Lady and the Pigeons, won many international prizes, including a Genie in Canada and a BAFTA Award in Britain, and secured an Oscar nomination.

But the Oscar would go to Blais' next film, The Old Man and the Sea. Based on the novella by Ernest Hemingway, the film is an achievement in animation. Some two years in the making, it involved more than 29,000 images, and was the first animated film ever shot with a large-format IMAX camera.

Post-Oscar, Productions Pascal Blais Inc. has continued to find new business with ever-greater artistic challenges. Last year, it won the contract to re-draw the face of Christmas for Coca-Cola, producing a beautifully nostalgic, animated version of Santa that was faithful to Haddon Sundblom's paintings, who had illustrated the jolly old fellow from 1931 to 1964. The resulting television ad campaign was a great success.

When entering into large contracts like these, Productions Pascal Blais Inc. relies on EDC's Accounts Receivable Insurance to protect its operating capital. "We do business around the world and because it is often difficult to get references in this industry, we want to make doubly sure that we get paid for the work we do. This insurance protects us against losses and gives us peace of mind," says Blais.

Profile

Business: Traditional animation and television commercials

Location: Montreal, Quebec

Established: 1983

Employees: 25 full-time and up to 20 sub-contractors

Exports: 50%

Export markets: United States, Mexico, Russia, United Arab Emirates

EDC relationship: Accounts Receivable Insurance

Contact: www.pascalblais.com

PCL: *Employees Help Build a Booming Corporation*

By Brenda Brown

In the early 1900s, PCL, then known as Poole Construction Limited, was pretty much a Saskatchewan contractor, who set out its office shingle in whichever town it found work. "But with the award of the Waterpark Place and Scotia Plaza projects in Toronto in 1983," explains CEO and president Ross Grieve, "we were able to extend our operations into central Canada, and take our place as a national contractor."

Today, just four years shy of its 100th anniversary, the company – with its head office in Edmonton, Alberta, and major offices in 21 cities across North America – boasts a record construction volume of $3.2 billion. That makes it the largest general contracting organization in Canada, according to *Heavy Construction News*, and the 16th largest in the U.S., according to *Engineering News Record*.

Over the years, PCL has become a builder of choice, resulting in greater market share and the opportunity to build some of the continent's premiere construction projects, such as the Terra Nova Floating Production Storage and Offloading Vessel near St. John's, Newfoundland; the Air Canada Centre in Toronto, Ontario; the STAPLES Center in Los Angeles, California; the Mall of America in Bloomington, Minnesota; and the Chesapeake Bay Bridge-Tunnel Parallel Crossing in Virginia Beach, Virginia.

However, it is the smaller, unique projects that are the company's "bread and butter." Grieve reports that 95 per cent of the 3,700 PCL projects completed in 2001 were not mega projects, but rather projects with an average dollar value of $80,000.

The company took its first steps into the U.S. market in 1974, when one of its major clients, Oxford Development Group, an Edmonton-based real estate developer, asked them to build the US$7.4 million Colorado Square Phase I office building in Colorado Springs.

Since that time, PCL has worked in more than 36 states, and its annual U.S. construction volume accounts for approximately 45 per cent of the company's total volume. Their U.S. operations are home to more than 2,000 salaried and hourly PCL staff, representing an annual payroll of more than US$100 million.

PCL works hard to establish strong relationships with clients, as well as local business and trades communities, irrespective of which side of the border they're on. However, working in the United States does present its own challenges. "Companies think that working in the United States is like working in Canada. Our experience is that there are many differences. To reduce the risk associated with entering a new market, we often joint venture with local companies, who are better acquainted with the region's business practices."

PCL people are united by a belief in employee ownership, which was adopted in 1977. "In a world plagued by low investor confidence, we are proud to report PCL is 100 per cent employee-owned, with more than 80 per cent (1,350 employees) owning shares," says Grieve. "This is a record in our 25-year history of employee ownership."

With employee ownership comes an entirely different attitude. PCL people have a vested interest in the outcome of projects, notes Grieve. "We've posted a profit for every one of the 25 years we've been employee-owned. Not many companies can make that claim, especially those in the tough cyclical industry of construction, which has known a number of recessions during this time period."

Their performance as a leading general contracting organization and employer has not gone unnoticed. In 2002, PCL was recognized as one of the "50 Best Managed Companies in Canada" (for the seventh time!), as well as one of the "50 Best Companies to Work for in Canada." ■

Profile

Business: Employee-owned general contracting
Location: Edmonton, Alberta (Corporate Head Office); Denver, Colorado (U.S. Head Office)
Employees: 1,600 full-time salaried staff; 3,000-5,000 field workers
Annual sales: $3.2 billion
Exports: 45%
Export markets: U.S.
EDC relationship: Accounts Receivable Insurance
Contact: pclinfo@pcl.com; www.pcl.com

PCL and partner Nordic Construction completed the 1.1-million-square-foot Hawaii Convention Center in 730 days – one month ahead of schedule!

Investing Overseas: *Should Corporate Canada Take a Fresh Look?*

Now is the time to take a look at broadening your investment focus. Central and Eastern Europe and the former Soviet Union offer Canadian companies new opportunities, high growth potential, an appetite for commercial co-financing, and a willing investment partner: the European Bank for Reconstruction and Development (EBRD).

By C. Scott Clark

On the whole, countries in the region grew by 4.3 per cent in 2001, outperforming most other emerging markets, the European Union and the United States. In Central and Eastern Europe, higher consumer spending, greater business investment and the European Union accession process will continue to drive growth forward. In Russia and the former Soviet Union, the challenge is to deepen reforms and further strengthen the investment climate, thereby sustaining productivity gains.

While portfolio investors and international bank lenders are returning to the region following the Russian financial crisis of 1998, private capital flows continue to represent the largest boost to the region. Despite global economic uncertainty and greater volatility in international financial markets, private capital flows into the region, largely through foreign direct investment, rose from US$1 billion in 2000 to US$6.1 billion in 2001.

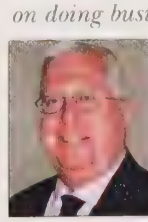
Although some of this investment is Canadian, significant scope remains for corporate Canada to develop new, long-term business opportunities in this part of the world.

Is this region without risk? Clearly, not. Private investors must continue to assess the investment climate carefully, country-by-country and sector-by-sector, and work with risk-sharing partners like the European Bank for Reconstruction and Development (EBRD). Founded in 1991, when communism was crumbling, the EBRD has now completed a decade of successful operations during which its capital doubled to EUR 20 billion (close to 30 billion). Sixty countries plus two intergovernmental organizations own the EBRD, and the government of Canada is the bank's eighth largest shareholder.

The EBRD's purpose is to help build market-based economies and foster democracy and pluralism in the 27 countries of Central and Eastern Europe and the former Soviet Union. The bank's priorities are to develop an efficient financial sector in the region, assist enterprise restructuring, support private equity investments and improve corporate governance and the investment climate. The EBRD puts special emphasis on small business growth and infrastructure development, while encouraging the environmental sustainability of projects.

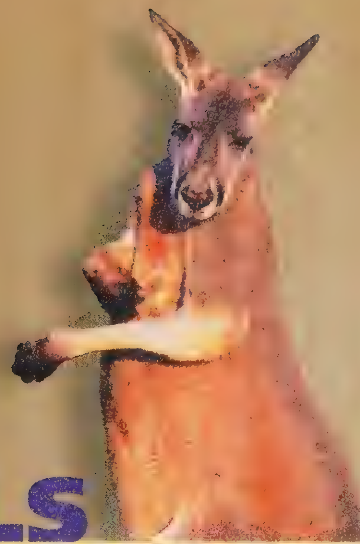
To date, the EBRD has worked alongside foreign project sponsors from around the world on more than 800 transactions, and has mobilized co-financing from public and private sources, including EDC. At present, the bank has several ongoing transactions with Canadian companies such as Telesystem International Wireless for the provision of cellphone services in Romania and the Czech Republic, and Kinross, High River Gold and Cameco for gold mining operations in Russia and the Kyrgyz Republic.

This region aims to achieve in a few decades what it took the industrialized world several centuries to achieve. My message is simple: take a good hard look at Central and Eastern Europe and the former Soviet Union. There is something important happening there. And for investment that is sound, respectful of the region's people and environment, and that fosters economic transition, Canadians have an experienced and willing partner in the EBRD. ■



C. Scott Clark is executive director for Canada at the EBRD in London, U.K., and formerly served as Canada's deputy minister of finance. He spoke at a forum on doing business with Central and Eastern Europe, organized by EDC, at the Conférence de Montréal. Information on the EBRD can be found at www.ebrd.com.

Australia:



DIGGING FOR DEALS DOWN UNDER

Canadian exporters are digging for deals *Down Under* and coming up golden. And according to Canada's Trade Commissioners, Canadian companies have only scratched the surface with respect to the commercial potential available.

Despite the distance, Canada and Australia have a lot in common: we share a language, historical links, and, most importantly in terms of trade, a business culture. Indeed, the ease of doing business Down Under may be part of Canada's attraction to Australia.

According to Roger Chan, the senior trade commissioner with the Canadian High Commission in Canberra, Australia offers relative export simplicity: "There are no major trade barriers and much familiarity – from similar business practices to compatible legal and accounting systems." Australia also presents a comparable consumer base. "The similarities in commercial environments and consumption patterns means that products that succeed in Canada are good prospects for the Australian market," adds Chan.

Australia Quick Facts

Population:	19.2 m
GDP per cap:	US$22,250
Inflation rate:	2.8%
Currency:	A$1 = C$0.866 (05/30)
Capital:	Canberra

Top Sectors of Opportunity for Canadians in Australia

Top 5 Canadian EXPORTS to Australia (2001)

1. Aircraft & parts
2. Automobiles, engines & parts
3. Telecommunications equipment
4. Wood, simply worked
5. Fertilizers

Top 5 Canadian IMPORTS from Australia (2001)

1. Alumina
2. Beef
3. Petroleum products
4. Sugar
5. Wine

The Aussie attraction

Averaged over the past decade, bilateral trade between Canada and Australia has risen slowly, reaching $2.7 billion in 2001. More recently, however, Canadian attraction to Australia has intensified. Canadians, like many other nations, were reminded of Australia's appeal through the international exposure generated by the 2000 Summer Olympic Games in Sydney. In addition, the 2000 Canada Trade Mission to Melbourne and Sydney helped propel Australia from 15th to 13th place as an export destination for Canadian goods and services, overtaking Taiwan and Brazil.

Several other factors have also sharpened Canadian interest in Australia. While economies worldwide dipped in 2001, Australia maintained its decade-long growth trend. The country's economy, the fourth largest in Asia-Pacific, grew 2.4 per cent in 2001, and is expected to top 3.5 per cent in 2002. Australia's ability to offer a growth economy, a stable legal and political system and a high standard of living has made Australia an attractive place to set up shop. As a result, more than 185 Canadian companies have established offices in Australia.

Australia's trade appeal is heightened by its ideal position as a launch pad to Asia-Pacific markets. Several Canadian companies have successfully accessed Southeast Asian markets via Australia. In particular, Sydney is deemed a natural entry point. As the capital of the state of New South Wales, Sydney commands the largest and most sophisticated economy in Australia. As the nation's cultural and financial hub, Sydney is home to more than 200 foreign subsidiary companies – including Canadian financial institutions such as TD Bank and CIBC – and two-thirds of Australia's regional headquarters. The city's international reputation, its status as a major port of call and its strong source of Asian language capabilities make it a promising base of operations for commercial expansion into the Asia-Pacific region.

Promising sectors for Canada-Australia trade

Advanced technology

After the United States, Australia is the second-largest per capita user of PCs in the world, and one of the largest per capita users of the internet. Eager to maintain a leading technological edge, Australians are continually updating their technology.

More than 75 Canadian high-tech companies have established themselves in Sydney, including Nortel, Sasktel, Corel, Cognos and GEAC. Denise Jacques, the senior trade commissioner with the Canadian Consulate General in Sydney, confirms that the sector is an area of growing importance and opportunity for Canadian firms. "Opportunities cover the exchange of technology in a broad variety of areas, with information technology and telecommunications sectors leading the pack." The Australian advanced technology sector offers several exciting niche areas, such as computer-assisted inventory control, data analysis and financial systems – all of which fit Canadian capabilities.

Agri-food

Agri-food is another strong sector for Canadian companies, but one that requires perseverance. Canadian companies interested in the Australian agri-food market are encouraged to contact the Trade Commissioner Service for assistance.

Australian imports of agri-food products are dominated by processed foods, of which 80 per cent are ready for household consumption. Canadian products such as french fries, salad preparation kits, bakery items, maple syrup, and candy are currently sold in Australian specialty shops and grocery stores. And while Canadians have developed a fondness for Australian Shiraz wines, it is hoped that Australians will develop a liking for Canadian ice wines. Trade commissioners have flagged both wine and consumer-ready foods as possibilities for further development.

Biotechnology

Biotechnology figures prominently in Canada-Australia trade opportunities, with an emphasis on collaborative research and commercial development initiatives. According to a 1999 survey by Ernst & Young and the Australian government, Australia's biotech industry is most similar in structure to the Canadian industry, with many small- and medium-sized firms comprising a large core of the sector. As an overall indicator of Australia's interest in biotechnology ventures, the country's representation at the June BIO2002 conference held in Toronto was significant – more than 400 delegates, including three state premiers.

Australia's biotech industry has produced some of the world's best-selling biopharmaceuticals. In response, the Australian government has marked biotechnology as a key industry and has devoted strategic funding to its development, which could be leveraged by Canadians working collaboratively with Australian counterparts.

Aerospace & transportation

Canadian success in the aerospace sector continues to be led by Bombardier. Besides clinching a $500 million sale of jet airliners to Australia's Kendal and Sunstate Airlines, Bombardier recently secured a deal to supply Qantas with three Q300 aircraft worth $60 million.

Other areas of opportunity for Canadian companies in transportation include a burgeoning business in automobile parts, engines and finished vehicles. Canada's Western Star Trucks, for example, is a well-established make in Australia, with sales reaching $35 million per year.

Emerging sector: cultural industries

Canadian trade officers have identified cultural industries as a promising sector, with scope for greater sales of Canadian music, films and books. Many Canadian recording artists, film-makers and writers have found new audiences and success in the Australian market.

Film co-production is supported under a Canada-Australia agreement that provides tax concessions and benefits to Canadian and Australian film producers. Canadian music artists also have opportunities to access Australian radio, television and in-store promotions, as well as government support for international tours and industry events.

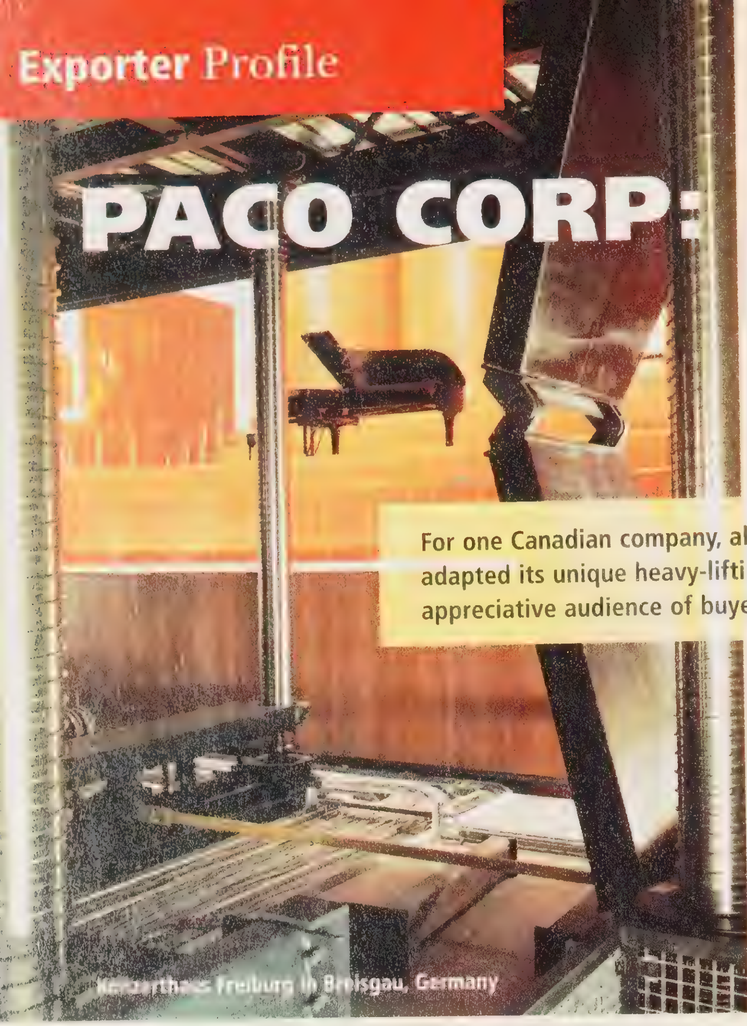
A durable trade relationship

Canada's trade relationship with Australia dates from 1895, when the first overseas Canadian trade office was established in Sydney. Back then, Canadian exports leaned toward wagon wheels and wood items. Today, Canada's top exports to Australia still include wood, but have diversified to high-end, value-added goods such as aircraft, automobiles and telecommunications equipment.

Canada and Australia have shared a long and positive relationship. Our links and similarities extend beyond the spheres of commerce and government. A sign of Canada's deeper ties and affinity with Australia appeared in 2001, with a special gift commemorating Australia's centennial. The stone pavement called "Speaker's Square," designed by renowned Ontario artist John McEwen, was incorporated into Australia's newly created Commonwealth Place. The design features the constellations in the night skies of the northern and southern hemispheres, which are distinctive yet familiar – a good metaphor for the similarities and differences between Canada and Australia.

Despite occasional grumbles about time and distance, the ease of doing business Down Under continues to draw Canadian interest. When you add up all the pluses – relationship, opportunity, similarity, stability and proximity to Asia-Pacific markets – the attraction to Australia is hard to resist. ■

For sectoral market reports and information about doing business with Australia, visit the Canadian Trade Commissioner Service web site at www.infoexport.gc.ca.



Konzerthaus Freiburg in Breisgau, Germany

PACO CORP: *A Gala Performance on the Export Stage*

For one Canadian company, all the world's a stage. Paco Corp of St-Hubert, Quebec has adapted its unique heavy-lifting technology for theatrical use, and has discovered an appreciative audience of buyers at prestigious performance venues around the world.

By Michelle Stevenson

Paco Corp was originally formed in 1960 as a manufacturer of equipment for moving concrete blocks and pavers. During the sixties, Paco began researching new technology to automate the process of handling concrete. Today, the corporation holds more than 30 patents and employs upwards of 150 professionals in the areas of engineering, manufacturing and sales and administration.

Its concrete division is still a major contributor to the corporation's bottom line, responsible for 40 per cent of the company's sales, the majority of which are to buyers in the United States. "We've been exporting our products from the very beginning," says Pierre Lebel, Paco's director of finance, "and the United States was our first export market."

But it certainly wasn't the last. The successful development of its Spiralift technology launched Paco's giant leap onto the stages of the world. "During the eighties we began developing new machinery for use in the theatre," says Lebel. "We found a market niche of our own, a sector where we're able to meet a unique need through constant innovation."

The result was Gala Theatrical Equipment, a division of Paco that is now responsible for 60 per cent of its annual sales. Gala produces a variety of automated lift systems for positioning scenery, props and equipment, manipulating overstage rigging, and positioning stage or seating risers. "Our standard installation allows the performance hall to set the stage as needed, and raise and lower the orchestra pit," says Lebel.

Gala's lift systems offer flexibility to theatres and concert halls, enabling them to function as multi-purpose, modular spaces. Since stage and seating can be reconfigured very quickly, more performances can occur in a one-day period. Its installations can be fitted into existing halls as well as new buildings, and it offers custom-engineered solutions for clients with special requirements.

Gala has gained international prominence in theatrical circles. "Our innovative products and the prestige of some of our contracts have helped make our name known in this market," notes Lebel. Indeed, Gala's client list reads like an index of the most sophisticated performance halls around the world, including Washington's Kennedy Center, London's Royal Opera House and a recent project for La Scala's Arcimboldi Theatre in Milan. Gala has installations on every continent and even on cruise ships at sea.

"Ninety-five per cent of Gala's sales are exports, and many of these are outside North America," says Lebel. "We make regular use of EDC's Performance Security Insurance (for more details, please refer to the EDC Tool Kit on page 25) to give us a certain sense of security with these contracts. And we consult often with EDC's Montreal office to keep ourselves informed about other products, such as Performance Security Guarantees and Specific Transaction Insurance. These are important tools for contract negotiation, particularly in Europe and Asia, markets we plan to continue penetrating in the future." ■

Profile:

Business: Designer and manufacturer of advanced electromechanical equipment
Location: St-Hubert, Quebec
Established: 1960
Employees: 150+
Annual sales: $30 million
Export markets: U.S., Europe, Asia
Contact: www.pacocorp.com

Competitive Intelligence: A PREREQUISITE FOR SUCCESS

By Noé Elizondo

While its competitors missed the market signals, Canada's Bombardier gathered competitive intelligence and took action in 1992 by purchasing Concarril, a Mexican railcar manufacturer.

Today, 66 per cent of the railway cars used by Mexico City's mass transit system are Bombardier-produced, as are 90 per cent of the light trains operating in Mexico's other major cities. Exporters, like Bombardier, are increasingly finding that competitive intelligence is the prerequisite for success.

To develop an effective market expansion strategy, three key types of intelligence must be gathered: market intelligence, customer intelligence and competitor intelligence.

Market intelligence

Despite the up-front costs, a visit to your prospective export market generally pays off in the long-run. Aastra Technologies of Concord, Ontario, is a case in point. After participating in a Team Canada trade mission to Mexico in 1998, Aastra Technologies was able to gather the information it needed to break into the telecommunications industry.

Mexico, the world's ninth-largest economy and a NAFTA partner, has only 14 telephone lines per 100 persons, compared to 66 lines per 100 persons in Canada and the United States. However, teledensity is expected to double by 2006 as investment continues to flood into the market from companies such as AT&T, Telefonica, and Vodafone. As a result, Aastra chose to establish a Mexican subsidiary to exploit the Mexican demand for innovative telecommunication products.

Aastra's visit to its target market provided the company with the best opportunity to develop an understanding of the size, growth, competitive landscape and emerging trends in Mexico.

Customer intelligence

Customer intelligence identifies potential customers and their key buying attributes. What are their needs? intentions? trends? Armed with this knowledge, a business can begin to more closely match their product or service offering to the desires of its potential customers.

Aastra gathered this kind of information on Mexico's dominant telecom provider, TELMEX. It paid off. In less than three months, Aastra won a contract to supply TELMEX with customized telephone equipment to support the development of an intelligent network and long distance services.

Competitor intelligence

To develop and maintain a competitive advantage in any market, Canadian exporters need effective intelligence on existing and potential competitors.

Who are the key competitors in the market? What are the strengths and weaknesses of each competitor? How are their products positioned? How do they deliver their service? Which strategies, mode of entry and strategic alliances do competitors choose and why?

The constant turmoil of today's markets makes accurately gathering this kind of information challenging – but even more essential – to understand the forces at play. To be effective, competitive intelligence must be a continuous activity that is integrated into a firm's international marketing strategy, providing current market information and laying the groundwork for future market scenarios that can allow the firm to maximize opportunities and minimize threats.

We live in an era of shrinking budgets, where businesses have to maximize scarce resources. It is critical to use our time and marketing dollars wisely. Good competitive intelligence allows exporters to make informed decisions that improve their return on investment. ■

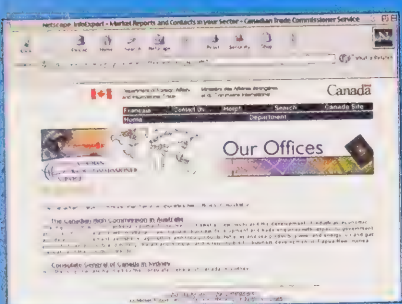
Noé Elizondo, vice-president of Intelamex Inc., provides customized competitive intelligence on Mexico to clients worldwide. For more information, contact www.mex-i-co.com or email noe@mex-i-co.com.

Small Business and Australia

Information Resources

By Veronica Prochazka

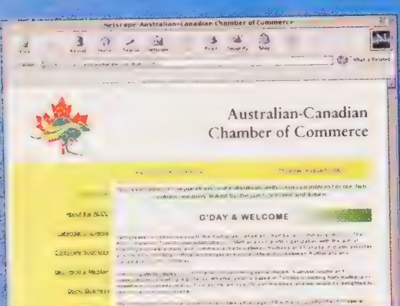
The web sites highlighted below provide valuable information to complement this issue's Industry (page 10) and geographic (page 18) features.



Canadian Trade Commissioner Service in Australia

www.infoexport.gc.ca/ie-en/OfficeSelection.jsp?cid=511

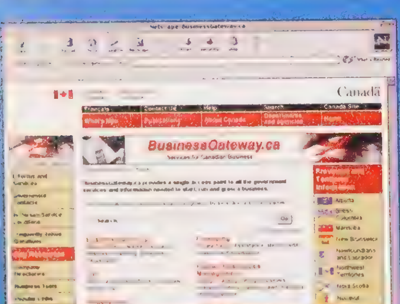
Both the Canadian High Commission in Australia (Canberra) and the Consulate General of Canada (Sydney) are mandated to promote Canada's interests in Australia and provide support for companies which have isolated Australia as a target market for their products, services or technology. Both offices offer six core services: market prospects, key contact searches, local company information, visit information, face-to-face briefing and troubleshooting.



Australian-Canadian Chamber of Commerce (ACCC)

www.auscanchamber.ca/index.html

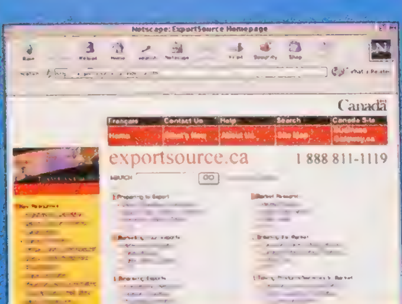
The Australian-Canadian Chamber of Commerce located in Toronto was first established in 1994 with the objective of cultivating business activity and commercial trade between Canada and Australia. The ACCC's on-line representation provides valuable information for those wishing to do business in either Canada or Australia, a useful links section, a calendar of networking events and more. Become a member and you'll be privy to some benefits.



Business Gateway

www.businessgateway.ca

A product of the Government of Canada, this web portal offers links to massive amounts of information for small businesses. Users can easily find information on business start up, tax, regulations, business statistics and analysis, e-business, financing, human resources management, exporting/importing, research and development, and selling to government/tenders. Information can be further refined by Canadian province.



Exportsource

http://exportsource.ca

Exportsource.ca is another web portal brought to you by the Government of Canada and Team Canada Inc. Unlike businessgateway.ca, this site provides information specific to exporting. The site is well organized, giving users the choice of information from various categories including: preparing, marketing and financing your exports, preventing and solving problems, market research, entering the market, and understanding the global marketplace.

ExportWise

Editor
Brenda Brown
brbrown@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateur avertis* is led by Anne Tanguay, in collaboration with Maguy Robert.

Contributors
Cressida Barnabe, Maxime Charbonneau, Jason Charron, C. Scott Clark, Noé Elizondo, A. Ian Gillespie, Julie Harrison, Louise Levasseur, Laura F. MacLellan, Stephen S. Poloz, Veronica Prochazka, Michelle Stevenson, Bonita Williams

Printing Services
Dollco Printing

EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at www.edc.ca.

→ Insurance

Accounts Receivable Insurance (ARI) – Covers a Canadian exporter against 90 per cent of export and domestic credit losses (domestic cover provided by London Guarantee Insurance Company) if the buyer can't or won't pay. ARI gives exporters peace of mind and access to new working capital by converting an outstanding receivable into a bankable asset, which in turn increases their ability to compete by being able to offer longer credit terms.

Political Risk Insurance – Helps Canadian companies protect their investments abroad, covering up to 90 per cent of losses.

Political Risk Insurance of Loans – This expanded form of Political Risk Insurance offers increased protection for investment loans.

→ Financing

Direct Loan – A financing arrangement between EDC and a foreign buyer, or a foreign borrower on behalf of a foreign buyer, for the export of a Canadian capital good or service. Medium-term export loans involve credit terms greater than two years and turn the exporter's sale into a cash sale.

Line of Credit – EDC has set up pre-arranged lines of credit with foreign banks, institutions, or purchasers, under which the foreign borrower lends the necessary funds to foreign purchasers of Canadian capital goods and services. A full listing of EDC Lines of Credit is available on EDC's web site at: www.edc.ca/loc.

Equity Investment – EDC can invest as a subsidiary investor in projects and companies that generate direct, substantial, identifiable, export-related benefits to Canada.

→ Contract Bonding

Bid Security Guarantee (BSG) – Protects banks from any calls on bank bid letters of guarantee.

Performance Security Guarantee (PSG) – Protects banks from any calls on bank performance letter guarantees.

Bid Security Insurance (BSI) – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Performance Security Insurance – Protects exporter from wrongful calls and justified buyer-induced rightful calls on bank guarantees if caused by events beyond the exporter's control.

Surety Bond Reinsurance – Indemnifies surety company for an agreed share of contract surety bond liability, should a claim payment be made due to exporter contract performance default.

Direct Surety Bond Support – By providing 100 per cent indemnity reinsurance coverage to fronting surety, EDC assumes full liability for contract surety bond issued to buyer as security against exporter contract performance default.

→ On-line Services

Export *MarketInsight*: www.edc.ca/e-reports – EDC's Economic Reports monitor political and economic events and gauge opportunities in more than 200 markets. This service is available at no charge to EDC customers and is also available through an annual subscription.

EXPORT *Check*: www.edc.ca/exportcheck – For as low as $60, Canadian companies can find out whether EDC considers their foreign buyer insurable for a specific transaction as well as some key summary credit and financial information. For more details about the buyer's credit and financial history, a Dun & Bradstreet Business Information Report can also be purchased.

EXPORT *Protect*: www.edc.ca/exportprotect – Canadian exporters can insure a single transaction of up to US $250,000. If a foreign buyer is in EDC's database and is considered insurable for the transaction, coverage is available immediately through a quick on-line application process.

e-Performance Security Insurance: www.edc.ca/bonding – Exporters can now apply, accept and pay on-line for EDC Bid or Performance Security Insurance (see Contract Bonding).

→ Small Business

Small Business Accounts Receivable Insurance – Accounts Receivable Insurance protects an exporter's outstanding receivable assets. EDC will insure export and domestic sales and if a buyer can't or won't pay, policyholders can make a claim for up to 90 per cent of the outstanding receivable with minimum administrative requirements. You can call 1-800-850-9626 to speak with an underwriter and put coverage into place over the phone.

Master Accounts Receivable Guarantee (MARG) Program – EDC can help smaller exporters obtain up to $500,000 in additional working capital from their bank by guaranteeing the operating line which is secured by all of the exporter's foreign accounts receivable.

NorthStar Trade Finance – This public-private sector partnership provides fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available on-line at www.northstar.ca.

Simplified Contract Bonding – A streamlined application/approval process has been developed for SMEs who require contract or surety bond guarantees.

Pre-shipment Financing – To help finance the pre-shipment working capital needs of smaller exporters, EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

Interested in an up-to-date list of all of EDC's available Lines of Credit (LOC) worldwide? They're on-line at: www.edc.ca/loc.

Free Trade in the Americas: *Still Worth the Effort*

The world trading system is experiencing the strains of the war against terrorism and a resurgence in protectionism. As a consequence, those working on the Free Trade Area of the Americas (FTAA) Agreement face even stiffer headwinds than before. Nevertheless, the tougher international environment could mean that the benefits from the FTAA will be even greater than originally thought.

by Stephen S. Poloz

The proposal to create a Free Trade Area of the Americas (FTAA) was given considerable political momentum at the Summit of the Americas held in Quebec City in the spring of 2001. However, a lot has happened since then, raising questions about whether the project can be completed.

The global trading system is being strained by a number of forces, but two stand out: the war against terrorism and the re-emergence of protectionist measures.

The war against terrorism is throwing sand into the wheels of global commerce. The U.S. border has become much tighter, and although staffing levels have increased, it still takes longer to cross the border. Anecdotally, average waiting times have increased by only about 20-25 minutes for trucks, but the added costs in terms of fuel and shipping times are significant nonetheless. Companies are adding more inventory to their delivery system to ensure that "just in time" does not become "almost in time." Insurance and security costs have gone up across the board. And, the paperwork burden associated with international trade has increased and will soon increase even more.

One way to counter this sand in the wheels of international trade would be to remove other barriers to trade, such as tariffs and other rules; in short, to negotiate free trade agreements such as the FTAA. Instead, the period since September 11, 2001 has seen the sudden re-emergence of trade protectionism from the United States, affecting steel, lumber and a range of agricultural products.

Trade protectionism can throw boulders into the wheels of trade, and puts a question mark around the FTAA. These developments have understandably raised the level of public scepticism regarding the benefits of free trade, and all participants in the FTAA will need to sell the deal to their constituents before it is actually implemented.

Nevertheless, the emergence of a less favourable international trading environment actually strengthens the case for the FTAA, as it could deliver greater economic benefits. A key part of the blueprint for the FTAA is a set of rules for foreign investment. This acknowledges that in today's world of global supply chains, foreign direct investment builds the platform for trade; growth in international trade is merely a symptom indicating that the underlying globalization strategy is succeeding.

The growing importance of foreign direct investment as a foundation for trade means that it is not possible to judge on the basis of today's trade flows just how beneficial the FTAA will be for the signatories. But a top-down analysis of the implications of the Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA) indicates that the benefits could be much larger than commonly believed.

Consider the degree of trade penetration in Canada today, where total trade represents over 80 per cent of GDP. This is an increase of about 30 percentage points since the implementation of FTA and NAFTA. The United States, like continental Europe and Japan, has a relatively low rate of trade penetration of just over 20 per cent. Trade penetration for Latin America, the Caribbean and Mexico is about 44 per cent on average, and it is rising rapidly in the major trading economies such as Chile (65 per cent) and Mexico (57 per cent). For Brazil, trade penetration is about 28 per cent which, although still low, represents an increase of approximately 13 per cent in the past decade. Argentina's trade penetration is 22 per cent.

Although trade penetration is rising gradually in most countries, it is clearly rising more quickly in countries with free trade agreements. If the FTAA were to spur the kind of increase in trade penetration for all participants experienced by Canada since 1989 (except the United States), the result would be an eventual increase in trade within the Americas of some US$700-800 billion per year – a substantial rise that would deliver higher GDP growth throughout the hemisphere.

The bottom line? The FTAA faces more headwinds today than it did in early 2001. The good news is that the benefits of the FTAA might now be even greater than originally thought. ■

Stephen Poloz is EDC's vice-president and chief economist. He can be reached at spoloz@edc.ca.

EDC Contacts

Companies with annual export sales of **up to $1 million** can call our team of SME specialists at

1-800-850-9626

Companies with annual export sales **over $1 million** can call the nearest region office by calling

1-888-332-3777

Western Canada

Lewis Megaw
Regional Vice-President

Vancouver
Tel.: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel.: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel.: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel.: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto
Tel.: (416) 640-7600
Fax: (416) 862-1267

London
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel.: (613) 597-8688
Fax: (613) 598-3811

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel.: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel.: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel.: (709) 772-8808
Fax: (709) 772-8693

contactatlantic@edc.ca

International

Mexico
Marvin Hough
Regional Director for Mexico & Central America
Tel.: (011) 5255-5387-9316
E-mail: mhough@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel.: (011) 55-11-5509-4320
E-mail: cescobar@edc.ca

Poland
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel.: (011-48-22) 584-3240
E-mail: dgoresky@edc.ca

China
Alison Nankivell
Regional Director for China
Tel.: (011) 86-10-6532-3536, ext. 3357
E-mail: anankivell@edc.ca

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500 • Fax: (613) 237-2690 • **www.edc.ca**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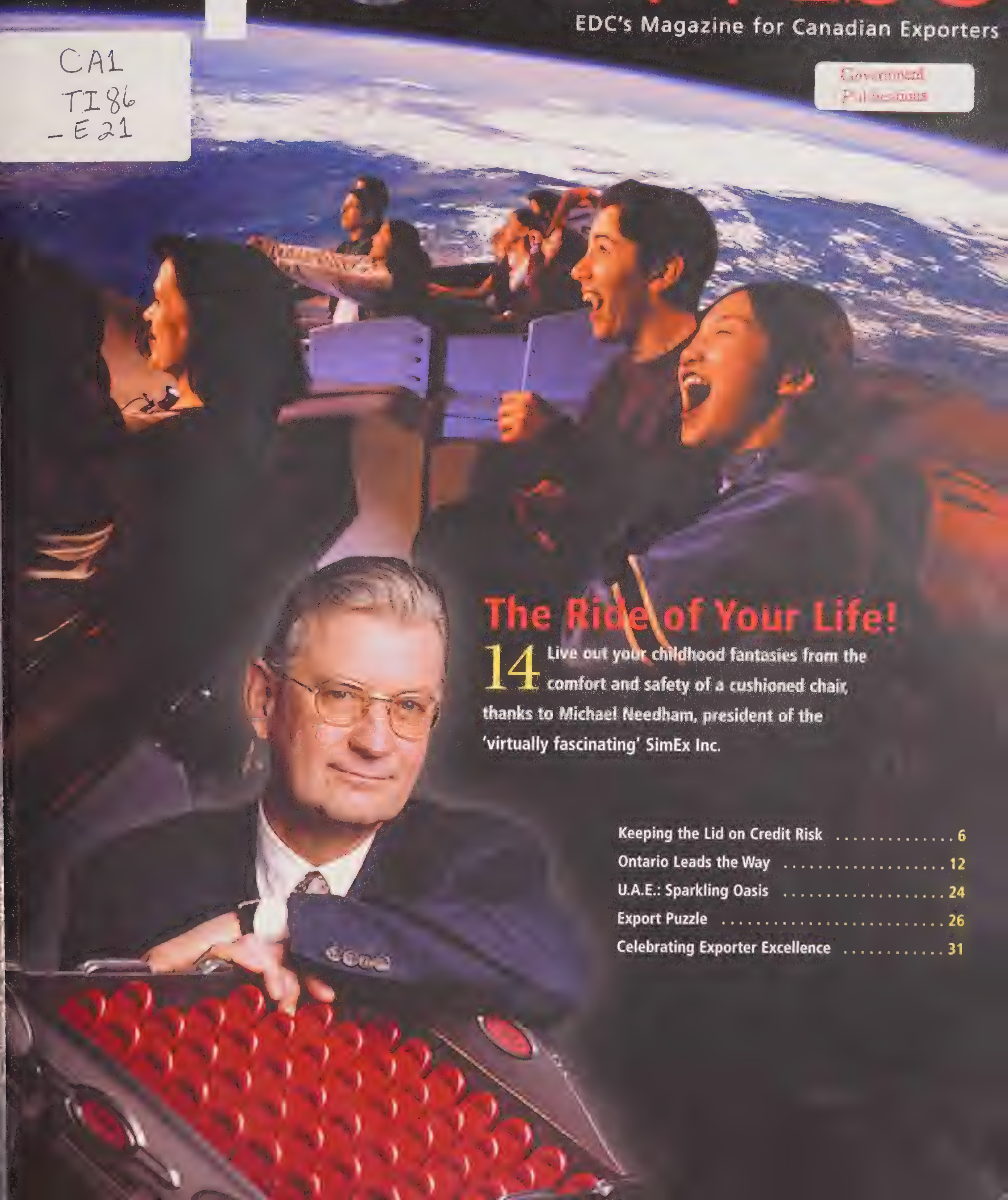
ExportWise

Winter 2003

EDC's Magazine for Canadian Exporters



The Ride of Your Life!

14 Live out your childhood fantasies from the comfort and safety of a cushioned chair, thanks to Michael Needham, president of the 'virtually fascinating' SimEx Inc.

Knowledge = Confidence

A. Ian Gillespie
President and Chief Executive Officer

Doing business in a new foreign market can be a little like going on a blind date. You know something about the situation going in, but there is still a degree of uncertainty. It also has the potential to be a real turning point in your life, which creates pressure or stress. For some, the uncertainty is enough to keep them at home!

This same uncertainty can also represent very real risk in the international business arena. The less you know about a country's legal, economic and political systems, or its environmental, social and human rights policies, the more chances you take. And these are on top of the 'standard' commercial risks you face, such as your foreign buyer being unable or unwilling to pay.

At EDC, a key part of our mandate is to build international business opportunities for Canadian companies, in all sectors and in all markets. Our customers and their buyers tell us that EDC brings real value to the table, thanks to our financial strength and risk management expertise.

We serve to manage – indeed eliminate – risks in a variety of ways. We provide basic credit insurance, contract insurance, political risk insurance … and knowledge. EDC's knowledge of foreign markets and economies is broad and deep. And getting deeper.

Recently, we made a further investment in our foreign market knowledge, hiring permanent representatives in Warsaw, Poland, and Monterrey, Mexico. Attending the opening of these new offices served to remind me of the challenges facing exporters as they explore new markets and reinforced my commitment to this outreach strategy. Having 'on the ground' representation means developing first-hand competitive intelligence which can open doors for Canadian exporters. And, once those doors are open, we can help to put the deals together using a variety of flexible financial tools.

This latest investment in people and knowledge development adds to our complement of representatives in China, Brazil and Mexico City, Mexico. All four countries are geographically well-positioned to enable access to several markets that are rich in opportunities for Canadian exporters.

Dennis Goresky was appointed to Poland last summer. This reflects our belief that Central Europe is one of the fastest growing emerging markets for western goods. It also allows us to reach out to other key markets, including Russia, Hungary and the Czech Republic.

Mexico now has two in-market representatives with the recent appointment of Noe Elizondo to Monterrey. Since establishing representation in 1999, EDC's business volumes for Canadian firms selling to or investing in the Mexican market have more than doubled (from \$1.2 billion in 1999 to \$2.7 billion in 2001).

Expanding to Monterrey was an obvious choice given its role as a key commercial and industrial centre. We believe Canadian firms and EDC will see significant opportunities to partner with local firms in Monterrey in a wide range of sectors (Editor's note: see related story, page 30).

It has been our experience that on-the-ground representation can play a key role in helping to develop and enhance our relationships, facilitate EDC-supported transactions and provide enhanced market intelligence.

This is good news for Canadian exporters and investors because we believe the more you know going in, the less exposed you will feel.

A. Ian Gillespie, C.I.T.P.

ExportWise

Winter 2003

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Front Cover and Contents photos courtesy of SimEx Inc.

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Exporter Showcase

Country Features

On the Ground

Commentaries

Special Features

In Every Issue:

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Dear Readers

In an effort to explore new and better ways to promote and celebrate Canadian excellence, we have decided to make some changes to *ExportWise.* The most significant change is that we will showcase a different region of Canada in each of the next four issues. We will talk about the challenges faced by exporters in these regions and introduce some of the entrepreneurs who have helped to shape Canada. We will also profile the countries these companies export to and share with you our views on future opportunities in these markets.

Other changes we are making include:

- *Small Business Solutions:* a special section devoted to the interests of small business. We discuss the rising threat of bankruptcies, the risky business of exporting to the United States, and how eBusiness can be used to grow your business.
- *Getting Started:* the first in a four-part series on the services available to exporters, whether you are new to exporting or an old hand.
- *On the Ground:* a perspective from our international representatives. Alison Nankivell reports on China's "Procrastination or Progress," a report card on the country's progress during its first year as a member of the World Trade Organization.

We hope you will find this information both useful and inspiring as you look forward to 2003. As our valued reader, you will be the final judge of whether or not we've achieved our goal. Please take a few moments to write to exportwise@edc.ca with your comments, observations and suggestions for stories that you would like to see covered in future issues of the magazine.

Brenda Brown
Editor

STATS ON THE STATES

RISKY BUSINESS

Compiled by Veronica Prochazka

After facing economic turmoil in 2001, the U.S. economy is now on the nend. Its recovery, however, is expected o be bumpy as a result of lingering eco-iomic uncertainty. Consumer spending s slowing down and the increase in man-ifacturing activity appears to have talled. On the other hand, the housing narket remains robust and the service idustry continues to expand. Stock mar-ets look as if they have bottomed out, 'hile corporate profits are set to recover. prolonged recovery and other posi-ve developments, however, could be :opardized by the looming U.S. attack n Iraq. When you weigh all of these ictors, it is important to realize that pportunities exist south of the border, ut there are risks as well.

To solidify the fragile recovery of the .S. economy, it is important that con-imer spending does not falter, as it is ie of the most important pillars of the :onomy. Although its contribution to oss domestic product (GDP) growth velled off considerably during the sec-id quarter of the year, personal con-mption accounted for approximately o-thirds of GDP.

Another important factor in strength-iing U.S. economic activity is the vival of investment spending. Corporate nerica is still struggling from last ar's recession; many large companies, couraged by the strong economic owth in the late 1990's, over-expanded eir production capacity and now, ce the boom has ended, find them-ves with excessive debt. Moreover, slug-h stock markets, tight credit condi-ns and widespread pessimism are couraging companies from investing, impeding overall economic activity. In an effort to re-kindle investment, we expect monetary policy to remain accommodative in the near term.

EDC sees the light ahead

Despite this uncertainty, the U.S. market still offers many opportunities for Canadian exporters. In fact, in the first eight months of 2002, most sectors saw an increase in U.S. exports.

Agrifood, consumer goods, automotive, resource-based intermediate goods, and intermediate industrial goods exports all showed positive growth. The most notable exception was the energy sector, which has experienced the biggest decline so far this year, due largely to lower prices early in the year. Aerospace, railway equipment and IT sector exports have also experienced declines due to a slump in the global airline industry, excess production capacity and limited access to credit.

Will you be paid?

As the recovery in the United States gains momentum, risk still, and always will, exist. "The U.S. is often the first market that Canadian businesses choose when they begin exporting," says Suzanne Morris, vice-president of EDC's Small Business Services. "Our close proximity and similar culture make it easy to forget this is one of the riskiest markets for Canadian exporters."

EDC claims statistics for the U.S.A. make this clear:

- In 2000, EDC paid 967 claims totalling $28.3 million;
- In 2001, EDC paid 1,276 claims totalling $45.8 million;
- As of August 31, 2002, EDC paid 993 claims totalling almost $39.2 million.

These statistics reflect a grim reality: exporters are losing money because they are not getting paid. This results in a domino effect throughout the economy.

Covering your risk

For Canadian exporters selling to the U.S., the risk of non-payment has never been higher. "Bankruptcies aren't often anticipated," Morris warns. "That's why setting up Accounts Receivable Insurance is an important part of any exporter's strategy. This insurance continues to be a simple and effective means of managing the risk of not getting paid."

With EDC's Accounts Receivable Insurance, 90 per cent of the exporter's losses are covered, freeing up their working capital and allowing them to offer more competitive payment terms to their customers. ■

KEEPING THE LID ON

By Bonita Williams

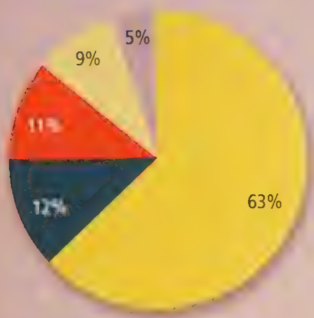
Canada enjoys continuing economic success, while the U.S. slides closer to recession. Having shared the ebullience of the longest period of economic expansion in modern times, can we really expect to escape the downturn? Canadian exporters are advised to hope for the best, even as they prepare for troubled waters ahead.

As we approach the end of 2002, it's clear that the past decade of economic growth and ebullience has given way to something more ambiguous and uncertain. The dot.com bubble burst has paved the way for a broader stock market meltdown, huge declines in individual and corporate wealth and rising concerns about other potential bubbles in housing and consumer spending.

Spurred by low interest rates and surprisingly stubborn optimism about the future, however, consumer spending has remained robust in both Canada and the U.S. "Canadian consumer goods exports have expanded more than five per cent so far this year," says EDC's chief economist Stephen Poloz. "It would seem that a surge in home values has offset some of the recent decreases in stock markets, so that the much-feared wealth effect does not yet seem to be dampening consumer spending. Of course, the Canadian dollar also remains low, giving our exporters that added pricing edge."

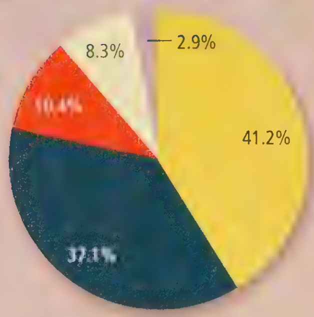
At some point, consumers are going to have to pay for their spending spree. Personal debt in the U.S. is high and retirement savings plans have taken a hit. Will consumers continue to shop 'til they drop? Will a hike in interest rates spell an end to the spending spree? In Canada, healthy government finances

Geographic Distribution of EDC Business and Claims in 2001



Where do we do business?

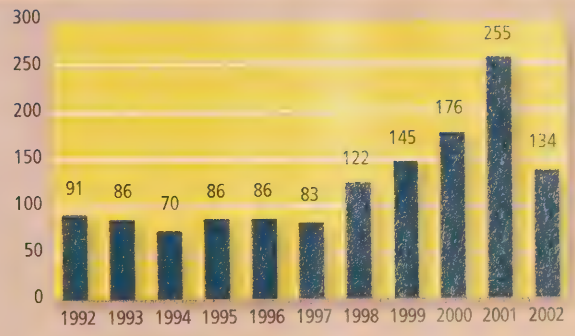
- North America
- Europe
- Central & South America
- Asia Pacific
- Africa & the Middle East



Where are the claims?

- North America
- Asia Pacific
- Europe
- Central & South America
- Africa & the Middle East

USA – Public Company Bankruptcies 1992 to 2002



and lower taxes may help soften the blow. However, our dependency on the U.S. – responsible for more than 85 per cent of total Canadian exports and $1.5 billion in cross-border trade each day – means that gloomier conditions south of the border will eventually trickle, or gush, into our own waters.

An important source of this leakage will come in the form of increased credit risk. This is particularly true in the retail sector where a significant rise in bankruptcies has already taken place. "U.S. retailers are seeking to improve their sagging performance through competitive pricing and by lowering inventory costs and eliminating under-performing locations," says Tom Sloan, director of EDC's Consumer Goods Team. "Profit margins are tightening and retailers are squeezing their suppliers to respond more quickly to their needs." Sloan says it all adds up to a heightened risk environment for Canadian consumer goods exporters.

EDC Credit Surveillance specialist, Daniel Ross, says that the key to surviving and even prospering during troubled times is being able to spot the early warning signs. "You really have to monitor your customers for troubles that could translate into payment delays or ultimately defaults," says Ross, adding that no customer should be beyond scrutiny. "In recent years, we've witnessed some pretty spectacular business failures, including such household names as Kmart."

"Profit margins are tightening and retailers are squeezing their suppliers to respond more quickly to their needs."

Among the signs of trouble to look for are the obvious slow payments, consecutive quarterly losses, inadequate interest coverage, tight liquidity or cash flow, or a credit rating downgrade. Less obvious signals include late filing of financial statements (public) or discontinued filing (private), a change in business focus, departures of key personnel, or a downgrade in the quality of assets.

Bob Kirke, executive director of the Canadian Apparel Federation, admits that one of the great ironies of downturns is that tighter credit policies are needed just when sales forces are kicking into overdrive to boost slumping sales. "There is a trade-off to be made between offering your customers payment terms they find advantageous enough to choose your products and putting your own business at risk," says Kirke. "Tighter payment terms offer you more protection, but may alienate potential buyers."

EDC advises companies to avoid accumulating large concentrations of receivables in any one account and to purchase insurance for even the seemingly safest accounts. "Receivables insurance is a good idea at the best of times," says Sloan, adding that EDC pays most claims on U.S. business which some consider to be relatively risk-free. "When troubled times emerge, receivables insurance is critical to insulating your business from the spillover effect of your customers' troubles."

Last year, EDC processed 2,850 claims, a 30 per cent increase over 2000 levels, worth $232 million. To the end of August 2002, claims were up another 30 per cent. While most claims are paid, Ross reminds people that it is the customer's responsibility to ensure they adhere to the conditions and credit requirements set out in their policy. "When we are forced to deny a claim, it's usually because the customer has extended credit without adequate credit information, or the loss is not covered by their policy," says Ross, adding that it's equally important to act expeditiously when a default occurs. "In more than 15 per cent of claim denials, the claims period had expired." ■

Canada's Apparel Industry: *Dressed for Success*

By Bonita Williams

Clothing is a commodity. It's for protection, modesty and nothing else. Right? Can someone please explain then why I need a 20-year supply of modesty and protection in my closet? The fact is, clothing is about much more than functionality. Clothing has long been a reflection of a person's social position and even sexual appeal.

Worldwide, the $245.2 billion apparel industry cuts a wide swath, from the star-studded runways of Paris and Milan, to the elegant shelves of upscale department stores and the florescent-lit aisles of hundreds of discount outlets.

Last year, Canada's 1,600 apparel companies shipped more than $7 billion worth of clothing, of which more than 40 per cent was destined for U.S. buyers. Throughout much of the 1990s, Canadian apparel exports grew at an average annual rate of almost 25 per cent, largely thanks to NAFTA-inspired privileged access to the clothes-conscious American consumer. That rate of growth has now slowed, as low-cost competitors increasingly penetrate North American markets.

"A down market presents significant challenges for everyone in the supply chain," admits Bob Kirke, executive director of the Canadian Apparel Federation. "As North American retailers seek to attract price-conscious consumers, apparel suppliers are finding themselves squeezed by an accelerated price mark-down cycle and tightening profit margins." Kirke adds that retailers are also cutting inventories and putting pressure on suppliers for just-in-time deliveries, effectively pushing inventory risk onto suppliers.

Some Canadian apparel producers are finding the key to continuing success in both Canada and the U.S. lies in niche markets, where quality and innovation, rather than the lowest price, are key competitive advantages. Montreal-based Jack Victor, for example, has been selling upscale men's wear for almost a century. The company is proud to offer high-quality, tailored clothing that rivals what is available from European suppliers. Today, the company sells in North America, Europe, the Far East and Latin America. "We are experiencing renewed interest in men's suits as corporate dress habits are again becoming more formal and the consumer has become bored with the casual look," says Ruth Audy, credit manager for Jack Victor. "I guess people don't want to dress down in a bear market."

Viren Joshi, a senior underwriter with EDC's Consumer Goods Team, confirms the trend to focusing on niche markets is increasingly the strategy being pursued by Canadian apparel manufacturers. "We're seeing customers with great ideas in new fabrics, specialty clothing and new production processes," says Joshi. "EDC Accounts Recievable Insurance continues to be one of the important tools of the trade, however, as no retailer is a sure bet when consumer spending pulls back." ■

Growth:
One Baby Step at a Time

When Sandra Wilson was faced with losing her job at Canadian Airlines more than six years ago, she decided it was the perfect time to start a business. Having just finished a 10-month maternity leave, and hoping not to send her baby to childcare, she turned a simple idea into a flourishing home-based business.

By Cressida Barnabe

Photo courtesy of Robeez Footwear.

Robeez Footwear of Burnaby B.C. began when Sandra Wilson's son Robert was just 18 months old. Robert is the inspiration behind the company's name and many of its designs. Robeez manufactures functional leather footwear in fun designs, but the biggest selling feature is that they can't easily be pulled off tiny feet – a common problem with many baby shoes.

Wilson started small, making the first 20 pairs of shoes by hand to take to the annual wholesale gift show in Vancouver. She left the show with 15 new accounts and the company began on a good footing.

Wilson was first introduced to EDC in 1998 when she attended the Cross-Cultural Workshop for Businesswomen, where she says she gained invaluable insight into exporting. While she wasn't ready to use EDC's products and services at that time, she knew who to call when a deal was on the table.

"We had been exporting to the United States since 1995, but our sales were to small gift stores and we could comfortably handle any losses," Wilson explains. "But when a deal with a U.K.-based distributor was in the works, I turned to EDC."

Wilson made the call, and credits EDC for helping her to negotiate the distribution deal. The challenge was that the distributor refused to do business with Robeez if the company required a letter of credit at the time of shipment. With her receivables covered by EDC's Accounts Receivable Insurance, Robeez could meet the 30-day terms and Wilson was able to sleep at night knowing she would get paid.

Exports now account for 60 per cent of the company's sales. The company is busy growing its U.K.-based business, as well as developing sales in Japan and Korea. In 2003, they hope to move into Germany.

"Exports are the key to our success. We have just completed our sales forecast for the next 12 months and we expect them to double," says Wilson. "We have just hit the tip of the iceberg in the world's markets, and when the next big deal comes, we'll turn to EDC."

Company Profile

Business: Manufacturer of quality leather children's footwear

Established: 1994

Annual sales: $2.2 million

Exports: 60%

Export markets: United States, United Kingdom, Japan and Korea

EDC relationship: Accounts Receivable Insurance

Contact: www.robeez.com

THE EXPORT WHIZ

Compiled by Veronica Prochazka

Question: My new customers in the United States typically want 30-day payment terms. I don't feel comfortable with this but don't want to lose business by demanding cash in advance. I don't have time to check supplier references and find credit reports expensive. How can I reduce my risk?

When you don't have any history with a buyer, you're smart to be cautious. Last year, our customers would have lost $93 million on 1,800 claims if they hadn't had EDC insurance. Incredibly, 70 per cent of these claims involved U.S. buyers that remained in business. A quick, secure and affordable way to check out buyers *before* you ship is EXPORT*Check*. Through our web site, you can get EDC's opinion on the insurability of the buyer, plus credit and financial highlights, for as low as $60. With on-line access to a database of 70 million companies in more than 100 markets, you can usually get a response within minutes. Check **www.edc.ca/online** for more information.

Kurt Rufelds
Project Manager, eBusiness

Question: Does EDC have any lines of credit (LOC) in Central Europe, specifically Poland?

Although EDC does not have any lines of credit established in Poland, this is not a reflection of our position on the country. An LOC is merely a financing mechanism, and not an expression of EDC's position on a country. EDC considers Poland and Central Europe to be key markets for Canadian exporters.

In cases where we are asked to finance multiple transactions with the same buyer, or where a local bank has identified a number of potential transactions for financing, we would consider establishing an LOC with either that buyer or the local bank. In cases where business tends to be more sporadic, we can provide financing on a one-off basis to creditworthy buyers or banks through such mechanisms as direct loans, purchase of promissory notes or guarantees for long-term letters of credit.

Lorne Cutler
Regional Manager, International Markets

Question: Two of my customers defaulted last year when they went bankrupt. How could Accounts Receivable Insurance help me?

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Linda Graupner
Director, Emerging Exporters Team

Quiz the Export Whiz:
Do you have a question related to international trade?

Email your questions to exportwise@edc.ca (subject: Quiz the Export Whiz) and we'll try to answer them in a future issue.

Gaining the eBusiness Edge in the Global Economy

We've all heard the old expression "if it ain't broke, don't fix it." For many small- and medium-sized enterprises (SMEs), this is often the response to a suggestion that they invest in information and communications technology in order to do something that they already do, and do well. In fact, encouraging smaller businesses to adopt more eBusiness applications, such as Internet-based solutions, is often met with even deeper concerns about return on investment, privacy and security of Internet transactions, and staff retraining.

By Nancy Hughes Anthony

Why adopt eBusiness?

Well, they may not be 'broke,' but many business activities can be done faster and more efficiently when eBusiness solutions are adopted. Ultimately, the result is increased profitability by cutting costs. This is particularly true for smaller companies competing in the global marketplace.

While many companies are connected to the Internet, eBusiness is much broader than that. Canadian companies can use technology more effectively to improve efficiency in their sales, marketing and procurement operations, customer relationship management, human resources and communications. This works in the business-to-consumer marketplace, and more importantly, in business-to-business transactions.

Slow to adopt

Unfortunately, smaller Canadian companies have been slow to adopt, lagging behind their American counterparts and their larger Canadian competitors. In terms of basic connectivity, 68 per cent of small firms in 2001 had basic Internet access, as opposed to 91 per cent of medium-sized firms and 94 per cent of large firms (*Embracing eBusiness: Does size matter?*). Even fewer SMEs have moved beyond basic connectivity to use more sophisticated eBusiness applications. Recent studies indicate that Internet business solutions are likely to account for 40 per cent of the U.S. productivity growth increase over the next 10 years (*Net Impact Study*).

How to adopt?

Over the past few years, the Canadian Chamber of Commerce has been working with members to help them overcome barriers to adopting eBusiness solutions. The Canadian Chamber produced a *SME eBusiness Toolkit* to help identify barriers and to provide tools to develop a plan using specific case studies.

The Canadian Chamber also played a key role in the Canadian eBusiness Opportunities Roundtable and is now playing a leading role (as co-Chair with Cisco Systems Canada) in its successor, The Canadian eBusiness Initiative (CeBI). The goal of this initiative is to accelerate eBusiness adoption in Canada to encourage productivity, leadership and innovation. For example, one part of CeBI's work is to promote the transformation of business processes, such as supply chain transformation, for SMEs in Canada. Another is to determine ways to increase access to the appropriate technical and business resources for Canadian companies.

Time to adopt

With 43 per cent of Canada's gross domestic product generated from exports, and SMEs forming the majority of exporters, embracing eBusiness solutions will not only determine the global competitiveness of our SME exporters, but will contribute to Canada's economic prosperity. ■

SME eBusiness Information Toolkit: www.strategis.ic.gc.ca/SSG/ee00240e.html

Canadian eBusiness Initiative: www.cebi.ca

Nancy Hughes Anthony is President and CEO of the Canadian Chamber of Commerce. She can be reached at info@chamber.ca

Ontario Leads the Way in Exporting

Ontario, which means "sparkling water" in Iroquois, conjures up images of majestic landscapes worthy of the Group of Seven, and conversely dramatic cityscapes. But whether you live in a small rural community or in the shadow of the CN Tower, the one thing Ontarians have in common is a vibrant entrepreneurial spirit. And that's good news for both Ontario and Canada.

By Brenda Brown

One of the driving forces behind Canada's continued prosperity is exports. And it's easy to see where Ontario fits in. The province is responsible for more than half of the country's exports which, in turn, accounts for 40 per cent of Canada's gross domestic product. Exports add more than $200 billion a year to Ontario's economy and support more than 1.6 million jobs.

"There is a definite link between the province's long-term prosperity and our ability to export high-value goods and services," says Bonnie Winchester, president and CEO of Ontario Exports Inc., the Ontario Government's trade agency. "Companies that export can often afford to ride out local market fluctuations and take on new opportunities."

Ontario's export mix is as diverse as the province itself, including everything from agrifood and mining to information technology and a burgeoning services sector. The strongest by far is the automotive parts industry which accounts for almost 50 per cent of the province's exports, followed by machinery and equipment, and industrial goods, at 21 and 15 per cent respectively.

"Many of our traditional exports are in the manufacturing sector, and like other economies, we've had to struggle with productivity issues," says Ruth Fothergill, EDC's vice-president, Ontario Region. A recent study saw Ontario ranked 32nd out of 60 jurisdictions (for productivity) in the United States and Canada. "However, recent capital investments in machinery and equipment to cut costs foretell of an increase in productivity for Ontario."

There's also a high concentration of exports to the United States – 92 per cent – which is understandable considering more than 100 million Americans live within a one-day's drive of Ontario.

Given this heavy concentration, getting exporters to diversify their markets is top of mind for both Ontario Exports Inc. (OEI) and EDC because exporting to the United States is not as risk free as some companies like to think. (Editor's note: see related story, page 5.)

"The challenge has been to get right down to the grassroots, to understand the needs of each exporter so we can provide the right business solutions," says Fothergill. "Most small businesses need all their resources to invent, manufacture and deliver. They don't have time to be experts in international trade finance. That's the know-how that we bring to our partnerships with Ontario exporters. Our entire organization is devoted to helping Canadian companies flourish by exporting. When we are part of the export partnership, every small business automatically has access to more than 50 years of trade experience and financial contacts throughout the world."

As part of its effort, Ontario Exports Inc. has established consultants in Mexico, Chile, and Brazil – markets they have identified as high-profile opportunities for Ontario suppliers. They also organize "virtual" trade missions, using the power of the Internet and video conferencing to bring together buyers and sellers. Both parties appreciate this innovative approach because it keeps costs down, facilitates that first important meeting, and allows sellers to showcase their products and services.

To maintain strength in the vital U.S. market, Ontario Exports Inc. also organizes missions to the United States to help first-time exporters identify opportunities and prepare for the risks inherent in any export deal. There, they meet with customs, trade financing and freight-forwarding experts, and return with the types of practical, hands-on information they need to start exporting. Held in co-operation with federal government partners, the New Exporters to Border States (NEBS) program is run eight to 10 times a year and usually involves about 12 potential exporters per event.

"Exporting isn't for the unprepared," says Winchester. "Planning is key. This is where organizations such as EDC and Ontario Exports Inc. can bring added value. We can help companies plan their growth, research potential markets, and bring them together with the buyers who need their goods and services."

The bottom line: EDC is predicting Ontario exports to grow by six per cent in 2003, a significant rebound from last year's 3.8 per cent decline. The outlook is that the automotive, energy, and consumer goods industries will lead the way, compensating for expected drops in exports of agrifood and machinery and equipment.

Did you know?

- Total foreign exports from Ontario in 2000 exceeded $230 billion
- Ontario is Canada's most productive province, generating 40 per cent of the country's GDP
- Ontario manufactures more than 1.5 million cars and trucks every year
- Automotive parts account for almost 50 per cent of the province's exports
- 43 per cent of Canada's total visitors come to Ontario
- Ontario is home to more than 1,100 multinational companies
- Toronto's Stock Exchange is one of the top 10 in the world

SimEx Inc: *The Ride of Your Life*

By Jane Daly

Human nature plays a cruel trick on us all. Remember those fantasy adventures we had as children? We couldn't wait to grow up to travel to far-flung places, drive race cars and battle dinosaurs. The irony is, by the time we're finally old enough to do these things without parental consent, hard reality sets in. Who has the money to travel to far-off lands? We regretfully realize that minivans are more practical than race cars. And even if dinosaurs still existed, wouldn't battling them increase our insurance premiums?

Not anymore!

Thanks to SimEx Inc., you can live out your childhood fantasies from the comfort and safety of a cushy chair. SimEx creates "virtual" rides – rides that combine IMAX (surround) movies with chairs that are either attached to a platform that moves, or can move independently. The chairs can drop, shift or vibrate, and include special effects such as audio, squirts of water or simulated smoke.

"All the projects we work on are so different that it's hard to pick just one personal favourite or to say which was the most exciting," says SimEx president, Michael Needham.

SimEx Inc. was founded in 1991 to acquire the simulator attraction arm of InterActive Entertainment Inc., which designed and built 'Tour of the Universe,' the world's first large-scale simulator attraction at the CN Tower in Toronto. Since then, SimEx has continued to design, build and install attractions for group audiences all around the world. More recent customers include Universal Studios in Spain, the Empire State Building in New York and the Royal Saudi Air Force Museum in Saudi Arabia.

Interestingly, Needham says that simulators can also be used as an innovative marketing strategy for businesses, as well as an attraction for museums, theme parks and international expos. "We built five simulators for Volkswagen at their manufacturing facilities in Wolfsburg, Germany, to showcase their cars," he says. "They wanted to encourage more customers to pick out their vehicles right at the plant, so the simulators were a fun way to attract a potential buyer's attention."

Even non-profit organizations can benefit. The National Museum of Science & Industry in London, for example, turned to SimEx attractions to generate a separate source of income because the United Kingdom's government has a 'free admission' policy for museums.

Needham adds that the entertainment industry is growing and providing new opportunities for SimEx. "EDC's support has been tremendous. Without it, we probably would not have been able to secure more than $5 million worth of business when the buyer asked for bonds to be posted as a requirement of the sale," says Needham. "EDC also helped out when we needed to issue a Standby Letter of Credit to three Chinese customers over the past few months. This freed up our working capital so that we could pursue other opportunities in this market."

Needham also found it beneficial to have an EDC representative on the ground when he travelled to China on business in October. "China is a complex market with many challenges," he says. "EDC was able to provide us with market insight and knowledge such as an understanding of the Chinese banking system and the challenges Chinese companies face when they import products." ■

Company Profile

Business: create virtual rides
Locations: Toronto, Vancouver, Los Angeles, San Francisco, Tokyo, and Osaka
Employees: 100
Established: 1991
Exports: Expected to be in excess of $30 million
Major export markets: United States, China
Contact: www.simex.ca

HOW OUR ECONOMISTS AND SECTOR EXPERTS SEE IT

Outlook for Computer and Electronic Equipment Sales

By Corry Van Gaal and Bill Brown

Export outlook

Computer and electronic equipment exports are expected to show a modest growth of one per cent in 2003. Overall, conditions in the industry are grim, but on a positive note, it is becoming increasingly evident that the worst is behind us. New orders, business investment, and inventory to shipments ratios are showing signs that the computer industry is in the early stages of a slow recovery. However, recent market volatility and early indications of slowing sales growth predict that the path to recovery will be rougher and longer than previously expected

Opportunities

The markets in East Asia and Eastern Europe will begin to pick up a larger share of trade in computer and electronic equipment in 2003. These economies have stronger growth potential than developed economies, and will provide an important stimulus to the global demand for IT products and services in the next few years. Also, 2003 and 2004 will be marked by an increased need for companies to be more cost efficient and productive. The emphasis on cutting costs will stimulate demand for computer and electronic equipment, which is conducive to helping companies achieve these goals. In addition, companies may also need to begin replacing existing equipment. Computer equipment has a relatively short lifespan, on average four years, which indicates that large-scale investments made in defense of Y2K are coming to maturity. This could bring a welcome boost in computer equipment demand in 2003 and 2004.

Key issues to watch

Capital spending growth will remain well below historical levels for the next year. Bankruptcies continue to mount, indicating that balance sheets just can't support the capital outlays. Furthermore, with capacity utilization rates at such low levels, even when demand does start to pick up, it will be some time before excess production capacity is worked off and new investments are made.

Corry Van Gaal is a research officer with Market and Economic Analysis, Economics (cvan gaal@edc.ca) and Bill Brown is director of the Advanced Technology Team (wbrown@edc.ca).

Cheers to Good Fortune

By Brenda Brown

When you least expect it. That's often when opportunity comes knocking – when all the pieces come together, and the sun and the moon align.

For John Pendlebury, marketing sales manager for Accutech Design Limited, one such moment came with a phone call from EDC asking if he would like to meet with one of South America's largest brewery conglomerates – a customer and market Accutech had targeted as part of its strategic marketing plan.

"I tripped over myself saying yes, and was even more impressed when I was told the company was coming to meet with us in Canada. This kind of pro-active approach is encouraging to smaller businesses such as Accutech because our human and financial resources are often stretched to the limits."

Accutech is a London, Ontario-based business which designs and manufactures custom automation equipment, including a line geared specifically to the needs of the brewing industry. One example of Accutech's patented technology is the Q-TEK bottle de-capper and dumper, which replaces the time-consuming and labour-intensive activity (up to 15 people) of emptying bottles by hand.

"We bring to the table nearly 30 years of successful design and engineering expertise in material handling and packaging solutions for the brewing and recycling industries," says Pendlebury. "We have continued to develop the resources to build, install, commission and service both proprietary and custom systems and were thrilled with an opportunity to showcase our expertise."

The potential buyer, Grupo Empresarial Bavaria, is the largest beverage manufacturer and distributor in Colombia, Ecuador and Panama, and the14th largest beer producer in the world. It produces beer and non-alcoholic drinks such as fruit juices, malt-drinks, drinking water and milk from its 12 manufacturing plants. It posted US$946 million in revenues in 2001 and has, over the past several years, embarked on an ambitious program to reduce the environmental impacts of its processes and operations through a preventative approach.

And, it has something else – a $300 million five-year investment plan to upgrade existing facilities and introduce new productivity-enhancing equipment. More than $30 million has been earmarked for environmental upgrades.

Among Bavaria's wish list: new layouts and replacement of bottling and casing conveyers in three of its breweries; waste water secondary and tertiary treatment plants for four of its breweries; and, enhancements to its refrigeration and compressed air systems.

"These are all areas where Canadian suppliers excel," says Denis L'Heureux, financial services manager for EDC's Machinery and Equipment Team. So when EDC was asked to participate in a syndicated loan to finance some of Grupo Empresarial Bavaria's investment plans, L'Heureux saw a golden opportunity to promote Canadian involvement. As part of the deal, EDC asked Bavaria to sign a letter saying they were prepared to give Canadians an opportunity to bid on at least $25 million of its procurement needs over the five-year program.

"We saw an immediate fit with some of the machinery and technology being developed right here in Ontario and Quebec, particularly in the areas of environmental technology, bottling machinery and production line automation," L'Heureux says. "We contacted the principles of Bavaria and asked if they would be interested in meeting with some Canadian suppliers. They said yes and asked how soon they could visit Canada."

"The value-added of having a grass-roots network of regional offices is that EDC was able to quickly come up with a list of locally known suppliers," says Ruth Fothergill, vice-president of EDC's Ontario Region. "Every day that goes by could mean a missed opportunity or increased competition for a Canadian exporter. So it's important to link in these companies quickly," she says.

"Moreover, EDC sometimes hears that smaller companies have difficulty getting in to see larger buyers, or that negotiations for the little guy with a major buyer can be tough. Thi

means that an introduction to a qualified foreign buyer through EDC can be very important."

Within two weeks, three senior officials from Bavaria travelled to Toronto and Montreal, where 35 small businesses were lined up to help Bavaria cross items off their wish list. Each company had 30 minutes to make their pitch.

"We were very impressed with the product and services that Canadian companies have to offer, particularly in the areas of waste water treatment and assembly line technology," says Guillermo Ramirez, director of engineering, Grupo Empresarial Bavaria. "Although we have used Canadian suppliers in the past, we had little idea of just how advanced Canadian suppliers were before seeing their technology first-hand."

For Ronald Bannon, vice-president of business development, sales and marketing for Akitek, an image processing firm providing systems for bottle inspection based in Laval, Quebec, it was an opportunity to meet with a company they probably wouldn't have been able to crack on their own.

A tour through a nearby brewery also gave Akitek a chance to demonstrate exactly what its equipment can do for Bavaria. "We are a new player in the bottling market with our scuffing detection system which basically helps to keep a company's fleet of returnable bottles in good condition. Some of our products, such as the foreign matter detection system, is quickly becoming an industry standard," Bannon says.

"The advantage of Akitek's technology is that it does not use any radiation to inspect the bottles. As countries get tougher on the use and disposal of radiation systems, environmentally safe, image-based technology such as Akitek's will be increasingly in demand," claims Bannon.

He adds, "We are only seven people in number, but we look like 70 when you see our air mile points. We travel extensively to explore new business opportunities and to service our existing clients. It was a welcome relief and pleasure to have a buyer come to us." ■

HOW OUR ECONOMISTS AND SECTOR EXPERTS SEE IT

Outlook for the beverage equipment industry

By Marie-Claude Erian and Gerald O'Brien

Export Outlook

Demand for injection molding equipment for the food and beverage market is forecast to recover through 2003 and 2004. This follows declining sales worldwide through 2001 and the first half of 2002. Although orders have been showing a rising trend in recent months, sales are expected to show sluggish growth until mid-2003 for more mature markets such as the U.S., and then strengthen. However, stronger growth is expected in most other markets, particularly developing countries, because their improved standard of living means an increase in consumption. Overall, the beverage sector will benefit from forecast increases in sales during the next two years, compared with the modest growth experienced in the past two years. Beverage companies are part of a well-established, intensely competitive, mature industry, and are, therefore, focused on market share, new product launches and cost control. Marketing alternative beer beverages and non-carbonated drinks are two key growth areas for the plastic bottles sector. While pricing remains hotly competitive, beverage makers and bottlers have been benefiting from a favourable cost environment as prices for resins (an important input to the production process) declined from early 2001 to mid-2002.

Opportunities

The key driver behind the outlook for the beverage equipment industry over the next two years is a forecast improvement in beverage demand. The beverage sector is also expected to benefit from the move to plastic, away from the use of paper, metal and glass packaging materials. For food, beverages and other consumer uses, market demand for PET (Polyethylene Terephthalate, a plastic resin whose properties include transparency, durability and flexibility) bottles and containers is forecast to be stronger than other plastic packaging over the long term. The forecast growth in beverage demand in 2003 is expected to strengthen in most markets, particularly North America, but to remain weak in Western Europe.

Key issues to watch

Difficult financial conditions faced by beverage makers and bottlers may crimp the expected modest recovery for plastics machinery demand in 2003. The pricing environment for beverages is anticipated to be intense, owing to a tough competitive market. As well, the beverage sector is expected to experience an increase in raw material costs, the primary cost element for packagers, as chemical companies boost their selling prices in 2003. It is uncertain if the beverage sector will be able to pass on this projected increase in costs to customers.

Marie-Claude Erian is a senior business development advisor with the Machinery and Equipment Team (merian@edc.ca) and Gerald O'Brien is an economist with the Market and Economics Analysis group (gobrien@edc.ca).

OLYMPIA: ON THE CUTTING EDGE

With a knack for innovation and a strong focus on customer service, Olympia is making the cut in the face of heavy-duty competition.

By Bonita Williams

Olympia's customer list reads like a who's who of industry – GM, GE, Siemens Westinghouse, Pratt & Whitney, Sikorsky, Goodyear, Caterpillar. The Toronto-based company designs and custom builds heavy-duty metal cutting equipment for them all. As part of its turnkey service, the company also offers installation and start-up assistance, on-site training and on-going technical support.

In a highly competitive industry dominated by longstanding companies, 20-year old Olympia Engineering has emerged as a supplier of the strongest, most productive equipment on the market. "We're still a relatively young company compared to the competition," says Olympia's operations manager, Victor Boutko. "We have to continuously prove ourselves through product innovations that solve longstanding customer problems."

The use of polymer castings for heavy-duty metal cutting equipment is one such innovation. Boutko says that Olympia machines can reach higher speeds because their polymer castings reduce vibrations. The customer benefits include better performance, greater cutting accuracy, and longer tool life. Olympia has also pioneered the use of total intelligent tool management systems. With the aid of video monitoring cameras and sensors, an Olympia machine can sense when vibrations occur and send the appropriate alarm to the operator or, in the event of imminent tool breakage, stop and replace the tool. "Our customers appreciate the savings that come with less down time, less tool wear and tear, or breakage," he adds.

Olympia sales exceeded $14 million in 2001 and $27 million by June 2002. To date, about 85 per cent of those sales have been to U.S. customers. These days, anticipating continuing sluggishness in U.S capital expenditures, Olympia is looking to newly industrialized markets for added growth potential.

"Our customers appreciate the savings that come with less down time, less tool wear and tear, or breakage."

"In European markets such as Russia and the Ukraine, as well as China, we're establishing dealer networks and visiting trade shows to position our competitive advantages with major buyers," says Boutko. "We're expecting these new markets will fuel our expansion and offset the possible slowdown of capital equipment investment in the U.S." To penetrate these markets, Olympia is planning to use a variety of EDC products such as Contract Bonding, Note Purchase Programs and Loan Agreements. Olympia's expansion plans include opening an additional state-of-the-art facility in the Toronto area next year.

EDC's business development manager, Chris Despond, is keeping on top of Olympia's evolving needs and offering solutions that are helping the company to realize its expansion goals. "Olympia has had all of its receivables covered by EDC's Accounts Recievable Insurance since 1997," says Despond, adding that Olympia has recently also

benefited from EDC's Pre-shipment Financing. "When Olympia told us they had an order for three new machines, but without the usual 30 per cent up-front down payment, we told them we could help." Working closely with Mike Anderson and Ryan MacIntyre of the Toronto Dominion Bank and Stephen Hebert from EDC's Small Business Financial Solutions Team in Ottawa, Despond was able to provide the necessary working capital solution Olympia needed to fulfill the required contracts.

According to Boutko, having the EDC Toronto Regional Office right on his doorstep is a real advantage when it comes to accessing the services they need. "Chris keeps in regular contact and offers valuable advice right when we need it, as was the case with Pre-shipment Financing," adds Boutko. "He also put us in touch with Alison Nankivell, the EDC representative in Beijing, when our president was visiting China."

Photo courtesy of Olympia.

Two CNC vertical turning centres on polymer casting bases being finished and started up.

Pre-shipment Financing:
Timely Support Up-front When You Need It.

One of the toughest challenges for smaller Canadian exporters competing for bigger contracts is when buyers demand competitive payment conditions such as small up-front and progress payments. "More and more, we're seeing buyers insisting on low down payments as a condition of sale," says Chris Despond, who serves customers from EDC's Toronto Regional Office. "For smaller exporters, limited access to working capital can be a real limit to competitiveness and growth." Increasingly, Despond says he's marketing EDC's Pre-shipment Financing as a solution.

In co-operation with Canadian banks, EDC has developed a risk-sharing program designed to encourage the banks to advance pre-shipment loans to smaller exporters. EDC will guarantee the exporter's bank for up to 75 per cent of a bank loan to fund pre-shipment costs associated with an export contract. Loans can cover up to 90 per cent of the direct costs to fulfill the contract, and can cover one or multiple withdrawals. The term of the loan is linked to the delivery terms under the commercial contract.

The advantages to Canadian exporters are clear:

- Access to working capital;
- Financial capacity to complete and perform larger contracts;
- Existing operating line is not affected and remains available for day-to-day operations; and,
- Opportunity to increase sales and profits in international markets.

Canadian small- and medium-sized exporters, in most sectors, are eligible for this support. The exporter's financial institution has to be willing to participate. "Exporters can contact their bank to pursue support under the program," says Despond. "EDC and the bank will then work together to close the deal and help you win the business."

Contact the EDC Regional Office nearest you at 1-888-332-3777 or email us at smallbusinessfinancialsolutions@edc.ca.

Singapore: *Open for Business*

By Peter Brake and Robert Simmons

Singapore is a culturally diverse, island country of four million people located in South-Eastern Asia, between Malaysia and Indonesia. It has successfully established itself as one of the most prosperous, industrial nations in the world – an achievement gained through disciplined, commercial traditions built on free enterprise principles and backed by strong government policy. Highly characteristic of Singapore, the government is an active participant and investor in the country's industrial and technological development. As an avid consumer of state of the art technology and innovation, Singapore is re-positioning itself as a knowledge based economy, aimed at enhancing its position as a regional hub for advanced life sciences research and telecommunications services. With an excellent infrastructure and transportation system, good banking and financial services, efficient telecommunications, and a superb education and medical system, Singapore is a regional hub for overseas multinational corporations and leading banks.

As one of the most open economies in the world, Singapore is notable as an importer of semi-manufactured goods and advanced technologies, both for itself and for re-export within the rapidly growing Asian region. As such, potential trading opportunities for Canadians exist. In 2001, Canadian exports of goods to Singapore were up four per cent to $389 million.

Considerable commercial and government investment is being devoted to health, education and telecommunications infrastructure. All major government tenders are open to international bids and the government actively encourages foreign investment. Life science, biotechnology, financial services, media and cultural industries have been targeted as future pillars of the Singapore economy. Canadian companies who are active in these niches should find countless opportunities.

Customs procedures minimal

Approximately 98 per cent of the country's imports enter duty-free, although societal concerns are behind tariffs on goods such as cigarettes and alcohol. In general, though, import licenses are not required, customs procedures are minimal and highly efficient, and the standards code is reasonable. Investment policies are similarly transparent. Even as the government seeks to develop more high-tech industries, it does not impose either production standards or demand requirements on local sourcing or export output. Given this freedom and the market's importance as a hub for South East Asia, it's not surprising that in October 2001, Canada and Singapore announced they were entering into negotiations toward a bilateral free trade agreement.

International competition fierce

International competition in the Singapore market is intense. As a developed market, standards are very high, emphasizing state-of-the-art technology and efficient and prompt delivery. After-sales service and attention to evolving client needs are expected and valued. Cost is important, but exporters need to maintain consistent contact with buyers and stay abreast of competing technological standards and innovations.

Singapore is a highly sophisticated world telecommunications leader. Most companies, commercial agencies and government departments maintain an advanced Internet presence and are able to transact business through electronic means. This trend is strongly supported by the government. Nonetheless, as in other Asian countries, it should not be forgotten that Singapore business is generally relationship-based.

Politically, Singapore is an oasis of democratic stability. Future South-East Asian development and growth may be subject to political developments elsewhere, but Singapore's position as a global competitor is secure, and it has easily weathered previous bouts of regional instability.

Singapore's business etiquette

Singapore's government, businesses and consumers are astute buyers and demand quality, price-competitive products supported by excellent after-sales service. To this end, Canadian exporters should be able to clearly articulate their competitive advantages. It is necessary for exporters to understand the global market for their product or service as Singaporeans have a sophisticated awareness of world products and services.

Strategic partnerships, distributorships and/or agencies are, in general, necessary to meet government registrations and generate all important business relationships. Exporters are advised of the need for efficiency and promptness. Business meetings should begin on time and be conducted professionally. Singaporeans will respect frank talk, with money issues being openly discussed.

Exporters should also be aware of traditional customs and practices concerning personal conduct and recognize that Singapore is a culturally diverse country. While the majority of the population is Chinese, there is also a significant Malay and Indian community. Never touch the head of a business acquaintance or child, as the head is considered sacred. Signalling or pointing at a person with a finger, or showing the sole of one's foot, is considered rude. So is pounding one's fist into one's hands. Always show great respect for the elderly and an awareness of status. Never begin eating before someone who is older or of higher status than yourself.

Gifts are not generally exchanged unless it is in the context of an invitation to a private home. Singaporeans are very strict about corruption and government officials never accept gifts. ■

Peter Brake, LLB, is an Ottawa-based freelance writer. He can be reached at peterbrake@rogers.com. Robert Simmons is EDC's regional manager of Asia and Pacific, International Markets. He can be reached at rsimmons@edc.ca.

EDC'S MARKET TAKE

How Our Political Risk Analysts See It

By Derek Baas

Investment environment

- Foreign investors are welcomed and enjoy a transparent and clear legal and regulatory framework. In addition, the bureaucracy is efficient and effective, and Singapore is virtually corruption-free.
- Singapore is a signatory to a number of international conventions on dispute settlement and arbitration. There have been no reports of significant disputes between the government and foreign investors.
- There are no restrictions on foreign exchange transactions or capital movements, reinvestment or repatriation of earnings or capital.

Political situation

- There have been no incidents of political violence for more than 30 years. This record can be attributed in part to tough internal security laws, but also to the substantial and consistent popularity of the People's Action Party (PAP). However, the discovery of Islamic terrorist cells in December 2001 shocked authorities who had believed that Singapore was virtually free of militant Islam.
- Authorities stepped up anti-terrorism measures after September 11, 2001 and again after the bombings in Bali, Indonesia in October 2002. Heightened security measures are particularly evident in areas where foreigners gather.

Key issues to watch

- Growing pressure from within the PAP for Prime Minister Goh to hand over his position to Lee Hsien Loong, Deputy Prime Minister and Finance Minister.
- Whether some sort of effective, organized opposition develops over the medium term.
- Whether Islamic fundamentalist groups are able to establish roots in Singapore.

Derek Baas is a Senior Political Risk Analyst with EDC's Political Risk Assessment Group. He can be reached at dbaas@edc.ca

Colombia: *New Government Promises Fresh Approach*

By Peter Brake and David Goldfield

For many Canadians, the thought of Colombia conjures up images of TV coffee promoter Juan Valdez, or of broad-brushed associations with civil turbulence and drug production. However, the recent election of independent Alvaro Uribe to the presidency promises a fresh approach to Colombia's difficulties with guerrilla activity and political unrest. The new government has promised to add new resources to tackle insurgent violence and to take a harder line against drug production and trafficking. Despite challenges to political stability, the Colombian economy has had one of the best economic growth records in South America over the last decade.

Colombia is a South American country of 43 million people, with a strong commercial environment and a long tradition of democracy. It enjoys abundant natural resources, including extensive reserves of oil and gas, coal and emeralds. Positioned near the equator, the market has a year-round temperate climate, enabling it to be one of the world's largest producers of coffee, bananas and tropical plants.

Colombia is Canada's fourth largest trading partner in South America. Two-way trade in 2001 exceeded $772 million, with Canadian exports increasing 15 per cent year over year. Canadian companies enjoy an excellent reputation in Colombia. Canada has been a leading foreign investor in the market, primarily in the oil and gas and telecommunications sectors, with 2001 direct investment totaling $869 million.

Opportunities abound

Significant export opportunities exist in sectors such as water treatment, environment, oil and gas, mining, transportation, telecommunications and agrifoods. Local water and power utilities are looking to modernize and upgrade their facilities and distribution. The clean-up of the Bogotá and Medellin Rivers offers downstream potential for Canadian companies experienced in aquatic habilitation.

In the oil and gas sector, oil recovery, offshore support and exploration technology is sought after for new fields under development. The sub-supply of pipeline and construction equipment, as well as environmental safeguards, are potential areas for Canadian expertise. In addition, Canadian firms are already significantly involved as investors in oil and gas exploration, production and pipeline operations.

In terms of the country's infrastructure, much of the Colombian air and road systems require extensive upgrading. Government projects are in the planning stages to build new linkages between urban centres. Plans are proceeding for the privatization of up to 40 per cent of the national highways, leading to additional procurement in road, bridge and surface enhancement and rehabilitation. Automated toll collection systems are just one of the niches where Canadians have been active. Previous sales of Canadian aircraft and helicopters also bode well for future sales to regional air transport sectors.

Privatizing operations is also being considered in the telecommunications sector, where foreign investment in the form of joint ventures and partnerships is encouraged. Equipment supply is also required and Canadian companies have been actively involved in expanding Colombia's fixed-line telecommunications and cellular networks.

Despite domestic issues, Colombia has a well-developed consumer society with considerable disposable income. There is an appreciation for consumer goods and the population is used to a wide selection of international products and services including food products. Exporters need to be aware of the diversity of the Colombian consumer market and tailor their strategic sales plans appropriately.

Looking long-term

Despite Colombia's impressive financial stature, the country is marred by security concerns. Corruption, violence, drug running and guerrilla activities are basic impediments to Colombia's growth. They continue to hinder foreign investment and undermine government efforts to diversify the economy. Government action has been promised and new agreements with foreign states may lead to more effective efforts in combating drug production and internal terrorism.

As steps proceed to include Colombia in the Free Trade Area of the Americas (FTAA), an agreement covering more than 34 nations, the lowering of tariff and trade barriers should have an additional positive impact on Canada-Colombia export trade.

Columbia business etiquette

For the business traveller, caution is the operative word when visiting Colombia. Be aware of the need for pre-planned travel arrangements and keeping a low profile. Always stick to well-travelled routes and use plain, unmarked cars to avoid being identified as a foreign national or company representative. Don't strike out on your own and avoid travelling at night.

Canadian business people are also advised to check-in with the Canadian Embassy in Bogotá.

Acclimatizing to the environment is also important. Remember that Bogotá is situated well above sea level and some travellers may need a few days of rest to adapt to the higher elevation. ■

Peter Brake, LLB, is an Ottawa-based freelance writer. He can be reached at peterbrake@rogers.com. David Goldfield is EDC's regional manager, Andean and Caribbean, International Markets. He can be reached at dgoldfield@edc.ca.

EDC'S MARKET TAKE

How Our Political Risk Analysts See It

By Rod Lever

Investment environment

- Foreign investors are officially accorded national treatment.
- There are few restrictions on the repatriation of profits, but the government reserves the right to restrict remittances if international reserves fall below three months' import cover (cover is currently quite high).
- There is a strict separation of powers between the executive, the legislature and the judiciary, but corruption, intimidation and inefficiency render outcomes unpredictable. It is, however, generally acknowledged that corruption is pervasive in virtually all areas of Colombian public administration.

Political situation

- There is severe and escalating political violence in many parts of the country. Several armed groups engage in violence for political purposes. Foreign firms – generally involved in the energy infrastructure – are regarded as "legitimate" military targets and may face kidnappings, extortion and bombing of facilities.
- Political violence has traditionally been concentrated in rural areas, from which the guerrillas and paramilitaries draw much of their support. However, skirmishes and bombings have recently taken place in major towns and near Bogotá, the national capital.

Key issues to watch

- All eyes are on President Uribe to see if he is able to live up to the expectations of the electorate and financial markets. If he cannot deliver, falling popularity will make him less effective, and markets will react harshly.
- There is a risk of escalation in violence (bombings, armed clashes, targeting of civilians) as President Uribe steps-up the degree of military engagement.
- The second largest guerilla group, the ELN, has been weakened over the years, and is likely to either fold-in with the FARC or arrive at a peace agreement with the government. The outcome is important: a FARC-ELN alliance would make the FARC stronger; a peace agreement would, among other things, reduce the risk of attack on infrastructure (pipelines and kidnappings are among the ELN's preferred activities).

Rod Lever is a political risk analyst with EDC's Political Risk Group. He can be reached at rlever@edc.ca.

United Arab Emirates: *Oasis Sparkling with Business Opportunity*

By Peter Brake and Ihab Tadros

Situated between Saudi Arabia and the Persian Gulf, the United Arab Emirates (U.A.E.) is a dynamic centre of inter-regional trade and commerce for the Middle East. Since its formation in the early 1970s as an amalgamation of seven emirates, the oil-rich U.A.E. has worked hard to modernize and provide its citizens with a high standard of living and strong purchasing power. The Emirates have a committed pro-business government and are interested in fostering a liberal regulatory environment.

The U.A.E. boasts a highly-developed transportation infrastructure noted for its size, efficiency and international linkages. This network, with ties to the rest of the Middle East, South Asia, East Africa and the post-Soviet republics, acts as a nexis for many foreign companies selling to the region.

The volume of Canadian exports to the U.A.E. reached $207 million in 2001, a small figure comparatively, but growing faster than trade with any other country in the Middle East and North Africa. More than 40 Canadian companies currently have offices established in the U.A.E. pursuing more than $2 billion worth of potential projects.

Market reliant on imports

If a desert is all one thinks of in the Middle East, then consider the U.A.E. an oasis sparkling with business opportunity. Without a broadly developed industrial and agricultural base, the market is reliant on imports of goods and services. Food and beverage exporters have great potential as the U.A.E. experiences an increase in demand for cosmopolitan tastes.

Beyond trade and oil and gas development, the U.A.E. is seeking to become the tourism and recreation destination for the region. Leisure activities such as golf and water-related sports are popular with tourists and local residents. Canadian products targeting these niches may find appreciative buyers. Business and travel needs have prompted the rapid expansion of hotel, office and retail services. New islands have even been constructed off the coastline in efforts to meet demand and more are planned. Significant opportunities exist for Canadian construction and engineering expertise.

The growing economy has meant increased requirements for power, water supply and modern telecommunications. Local utilities are expanding and are upgrading production and distribution networks. Environmental and desalination expertise will play a key role in further development. Investors should take note that the U.A.E. government is looking to enhance foreign investment in many of its utilities.

Trade opportunities also exist for Canadians active in the health and education fields. Like most countries in the Middle East, the U.A.E. has a high proportion of its population below the age of 25. Medical and health services are at a premium, and the U.A.E. is dedicating additional resources to expanding its role as a Middle East centre of higher education.

Understanding diversity is key

Inherent in most Middle East countries, the Islamic faith plays a central role in all aspects of daily life. An awareness of these rich traditions, and resulting import restrictions, are essential for Canadian exporters pursuing business with the U.A.E. Food and beverage exporters especially need to note that comprehensive labeling is of strict importance. Production and expiration dates are required on labels along with information on the origins of any animal fats.

As a country with a relatively small but affluent base population, the U.A.E. imports much of its labour needs. Exporters may find themselves dealing with individuals of various nationalities, including Indian, Malaysian and Chinese. Being familiar with a variety of Asian business customs is a distinct advantage.

U.A.E. business etiquette

In contrast to Western custom, Friday is the day of rest in the U.A.E. Normal working hours are also reduced at least two hours per day during the Muslim holy period of Ramadan.

Trading may be conducted by selling directly to the end user, selling through an informal, non-exclusive arrangement, or selling through an agent or distributor. The use of an agent is the most common practice and is required for company registration and ongoing business. Joint ventures may also be used, or a local firm may be authorized to sell products via license or franchising arrangement. Regardless of the approach used, be sure to do research on potential buyers.

Companies interested in fully-owned offices may decide to locate in one of the many free trade zones in the U.A.E. Companies in these zones enjoy exemption from import duties and taxes. The appropriate trade license is required to import products into the country.

Quality, technology and after-sales service are important criteria in the U.A.E. While price is always a consideration, the oil wealth of the U.A.E. means it has the ability and desire to obtain the best products and services. Canadians can gain familiarity and promote their products and services by attending any of the many U.A.E.-sponsored trade exhibitions and conferences.

International competition is fierce, yet Canada enjoys a reputation as a fair and honest country without strong political interests. Canadian companies can capitalize on this, in order to expand their export growth to the U.A.E. ■

Peter Brake, LLB, is an Ottawa-based freelance writer. He can be reached at peterbrake@rogers.com. Ihab Tadros is EDC's regional manager, Middle East and Africa, International Markets. He can be reached at itadros@edc.ca.

EDC'S MARKET TAKE

How Our Political Risk Analysts See It

By Fergal O'Reilly

Investment environment

- To attract investment, the Dubai government is likely to extend foreign ownership of both companies and property. Even if oil prices fluctuate between US$18 and $20 a barrel, repeated current account surpluses are likely to be registered over the medium term.
- However, oil wealth is unevenly distributed among the Emirates, with Abu Dhabi and Dubai being the wealthiest members of the Federation. Over the years, the U.A.E. has built-up a high degree of financial strength to enable it to weather a period of lasting low oil prices, as it has accumulated huge foreign assets. The federation has been keeping aside US$14 billion in foreign exchange reserves (excluding gold), equivalent to five months of import cover, but the U.A.E. has foreign assets estimated at more than US$100 billion.
- The foreign exchange system contains no significant restrictions, including capital flows.
- The U.A.E. have had to adjust to lower OPEC production quotas, but over the short run, has been benefiting from firmer oil prices than anticipated due to nervous markets. Continued spending on construction and infrastructure projects has enabled the U.A.E. to avoid a sharp drop in GDP growth.
- The oil sector will remain the mainstay, but authorities have tried to diversify the economy by encouraging foreign direct investment in the petrochemical industry and in the financial sector.

Political situation

- There are no apparent threats to political stability in the U.A.E. Relations between the seven Emirates that make up the country are stable, especially in the case of Abu Dhabi and Dubai, the largest and most economically dominant of the Emirates. Shaikh Zayed bin Sultan al-Nahayan of Abu Dhabi, the president of the United Arab Emirates, and the leader of the Supreme Council of Rulers (the highest federal authority), was re-elected for another five-year term in December 2001.
- It is unlikely that leadership of the U.A.E. will go to anyone other than the ruler of Abu Dhabi. Equally improbable is a scenario whereby any of the other six emirates might contest Abu Dhabi's leadership in the future.

Key issues to watch

- The outlook for the federation remains favourable, but the creditworthiness of the smaller emirates is questionable. Over the long run, the main issues are foreign workers and employment for the growing national workforce.

Fergal O'Reilly is a political risk analyst with EDC's Political Risk Group. He can be reached at fo'reilly@edc.ca.

PUTTING TOGETHER THE EXPORT PUZZLE: FINDING THE RIGHT PIECES

You've made the decision. You're going to move into your first export market and you're looking for information about how to get started. The trouble is, there are so many gateways to this information, it's hard to identify the ones you should use first. To help you out, we're going to tell you about the most essential resources and what you can expect from them. So, to begin at the beginning…

By Dennis and Sandi Jones

Are you export-ready?

The first stage in building your export business is to figure out if you're export-ready – for example, whether your product or service really does have a foreign market.

ExportSource at

Address: exportsource.ca Go

will help you here. Operated by Team Canada Inc. (TCI), this is a major gateway to all kinds of support. One tool you'll definitely want is their free software package, the Export Readiness Diagnostic, that you can download and use to analyze your state of preparation. ExportSource also provides TCI's *A Step-by-Step Guide to Exporting*, which has a section on readiness; you'll find this at

Address: exportsource.ca/stepbystep Go

There's another good readiness test at the Export Development Canada (EDC) web site at

Address: www.edc.ca Go

On EDC's home page, select the EXPORT*Able?* link under Future Exporters and register to take the EXPORT*Able?* questionnaire. Finally, you and your management might consider taking one of the *Going Global* workshops offered by the Forum for International Trade Training at

Address: www.fitt.ca Go

Finding experts on exports

As a new exporter, you probably haven't acquired a lot of international trade expertise. But you'll definitely need it, so if you're not inclined to add a trade expert to your management team, you'd be very wise to obtain these services externally.

A good place to begin is with TCI's Export Information Service at 1-888-811-1119. Its officers are trained to provide not only information, but also sources of expertise for your special situation. There's also an interactive tool at

Address: exportsource.ca/ifaq Go

whose ten basic questions will lead you to a broad range of resources for new exporters. And Industry Canada's International Trade Centre site at

Address: www.strategis.ic.gc.ca/itc-cci Go

will connect you to trade professionals in every province who work with Canadian companies to offer export counselling and market entry support services. Finally, the Business Development Bank of Canada has a consulting service for new exporters. Go to the

Address: www.bdc.ca Go

home page and choose the My Project is Exporting link.

Fitting together your export plan

As you become more export-savvy, you should be developing an export plan. This includes everything from your product's competitiveness to your projected financial needs. It is profoundly influenced by the nature of your target market, so your planning and research will necessarily go hand in hand.

This is the first in a four-part series. Look for part two "Financing your Exports" in the Spring 2003 issue of ExportWise

Part of your export plan's foundation is a solid business plan. If your business plan needs work, use the Canadian Business Services' Interactive Business Planner at

Address: www.cbsc.org/ibp Go

to refine it. Once you're satisfied, move on to TCI's Interactive Export Planner at

Address: exportsource.ca/iep Go

The planner's question and answer format will help you organize the information you already have and identify what you still need. Better yet, it will generate financial projections and notify you of resources for research.

Targeting and researching your market

As mentioned above, planning and research are highly interdependent. The latter is crucial to your plan's success and will determine how you proceed in a particular market. Don't skimp on research – the more target detail you have, the better your decisions will be.

An excellent aid, again, is ExportSource. On its home page, choose the 'Market Reports' link. This takes you to a list of web resources, including a link to markets broken down by geographical area. Another key place is the InfoExport site run by the Canadian Trade Commissioner Service at

Address: www.infoexport.gc.ca Go

Registration here gives you free access to detailed market reports classified by both industry sector and country. Finally, you can track down export possibilities with the International Business Opportunities Centre's business leads system at

Address: www.e-leads.ca Go

Assembling your marketing plan

The next major task is to plan your export marketing strategy. Tailored to the market you've chosen, this will describe essentials like marketing techniques, sales and distribution methods, possible strategic partnerships, and your ultimate intentions in the market. The ExportSource home page has a 'Marketing Information' link that takes you to essential resources related to this, such as cross-cultural marketing issues. *A Step-by-Step Guide to Exporting* (referred to earlier) also has a comprehensive section on this topic.

At this stage, however, you may want personal contact with a trade commissioner who is knowledgeable about your chosen market. Go to

Address: www.infoexport.gc.ca Go

and follow the country link to the Trade Commissioner Service's office located in your target market. Trade commissioners can help you assess your potential in the market, find key contacts such as foreign buyers and distributors, and provide you with the market information you need to succeed abroad.

Now, where's the next piece?

Once your groundwork and planning are well developed, you'll be ready to take on the challenges of financing your market entry. In the next article, we'll bring you the best resources for dealing with such complex international issues. ■

China's First Year in the WTO: *Procrastination or Progress?*

By Alison Nankivell

As China's first year as a member of the World Trade Organization (WTO) draws to a close, the country's main trading partners are busy drafting report cards on China's progress. Preliminary reports by groups such as the U.S. Chamber of Commerce indicate China will receive a mixed grade at best, particularly in the areas of agriculture and banking.

While quick to point out areas where Beijing is dragging its feet, China's trading partners also balance their criticism with recognition of the country's enormous challenges. With complaints comes genuine praise for China's efforts to transform its economic system and carry out a major education program on WTO principles for government and party officials, as well as for judges and industry executives.

The short take is that while China has not always delivered on time or as promised, most elements are there. *First Steps: A U.S. Chamber Report on China's WTO Progress* highlights four areas where China deserves recognition.

- **Telecommunications:** China has released regulations outlining requirements and procedures for obtaining operating licenses. While reforms are incomplete, they represent an opportunity for foreign investment and participation.
- **Intellectual property rights protection:** Laws and regulations have been revised, leaving enforcement as the major challenge for both authorities and industry.
- **Auto sector:** China has lowered its vehicle tariff rates for 2002 as promised. However, administrative hassles in obtaining licenses has left some imported vehicles stranded in bonded zones or in ports.
- **Insurance:** The China Insurance Regulatory Committee has trained its staff and updated regulations to WTO standards. However, problems in transparency, capital and solvency requirements, and onerous licensing requirements remain points of contention.

Agriculture is where China is at the most risk of a failing grade. A host of sanitary and phytosanitary standards and regulations issued before and after the country's accession to the WTO have created a new source of unpredictability. China's soybean import trade was thrown into chaos last year when a new law was imposed requiring safety certificates for genetically modified grains and oilseeds imports. The law was imposed without spelling out what the certificate needed to cover. China's Ministry of Agriculture followed up with confusing interim regulations permitting soybean imports under a temporary cargo-by-cargo process. They also required field testing for each biotech variety in order to secure permanent safety approval, but delayed permission so that technology companies could import seed for the tests.

China's Ministry of Health also issued regulations that seem to contravene the spirit and letter of the WTO by issuing biotech food safety and labelling regulations that threaten to cut off foreign exports of processed food. The ministry has not issued instructions on how foreign companies can comply. At the same time, tariff rate quotas for specific agricultural imports, including corn, wheat and soybean oil, were supposed to be issued in January 2002 with a percentage of these tariffs being issued to non-state trading companies. The tariffs were delayed until April 2002, and when issued, were directed to non-state trading companies in such small quantities as to render them useless.

The People's Bank of China has been on schedule with revisions to banking regulations, but has made it unattractive for foreign banks to expand their branch network by imposing steep local capital requirements for each new branch, rather than taking a foreign bank's overall capital reserves into account. Other rules limit foreign bank expansion to one branch a year.

China's ambivalence toward WTO reform in the financial sector stems from two factors. First, the government is keen to protect China's inefficient state-owned banking sector from competition until lending practices have been commercialized and risk management and technology reforms have taken hold. Second, the government's efforts to keep foreign financial institutions at bay are focused on insulating the Chinese economy from the vagaries of foreign creditors. Foreign capital, in the eyes of China's leadership, was a major source of instability for China's Southeast Asian neighbours during the Asian Crisis.

Foreign observers expected a few bumps along the road to China's WTO implementation, but are hoping current barriers don't turn into larger roadblocks. Fears that rapid reform, unleashed against a backdrop of softening economic growth, will lead to social instability, is encouraging China's leadership to procrastinate on the most painful aspects of its WTO commitments, particularly with regard to agriculture. But reformist elements in the government are expected to prevail over the medium term. ■

Alison Nankivell is EDC's regional director for China. Contact her at anankivell@edc.ca or call (011) 86-10-6532-3536, ext. 3357.

Mexico: *EDC Doubles its Stakes*

Noé Elizondo is EDC's second representative in Mexico, and has been based in Monterrey since October 2002. He has first-hand experience in the region, having held senior posts with two international market intelligence consulting firms, and having spent several years as sectoral co-operation attaché at the Embassy of Mexico in Canada.

EW: Can you tell us why EDC has hired a second representative in Mexico?

Mexico offers tremendous trade and business potential for Canadian exporters and investors, and EDC needs more resources in place to help them realize that potential. EDC has found that an on-the-ground representative gains better insight into specific risks and opportunities, and is able to provide enhanced market intelligence. An on-site representative is also able to cultivate strong relationships with key Mexican buyers, borrowers, government agencies, financial institutions and intermediaries, which can be used to pave the way for Canadian companies wishing to do business here. This approach worked so well the first time around, that it was time to double EDC resources. Since April 2000, when my colleague Marvin Hough set up shop in Mexico City, the number of Canadian companies selling to or investing in Mexico has been growing steadily. In 2001, EDC supported close to 400 Canadian firms in Mexico, and its business volume has more than doubled from $1.2 billion in 1999 to $2.7 billion in 2001.

EW: Why is Monterrey your home base?

There are significant opportunities for Canadian firms and EDC to partner with local firms in Monterrey, in sectors such as industrial equipment, automotive, plastics and packaging equipment, electronics, environmental applications, telecom and advanced technology. Because EDC has a strong commercial focus and the capacity to work with commercial banks, it is well-suited to the Monterrey market. EDC's recent participation in various syndicated loans for Monterrey-based industrial conglomerates is opening doors for new Canadian suppliers. At the same time, its direct Lines of Credit provide Monterrey-based industrial groups with tailored financing to facilitate Canadian supply solutions. EDC enjoys excellent relationships with key industrial conglomerates and firms in the Monterrey region, and has concluded significant business with firms such as Grupo Imsa, Cemex, Grupo Alfa and Grup Vitro, amongst others, in support of Canadian exporters. Also, during the past five years, Canada has become a net foreign investor. Every year, more and more Canadian companies are investing outside of Canada, and Monterrey is a key destination.

EW: What is the main focus of your role?

I really have two main goals. The first is to develop and enhance EDC relationships in Monterrey, which will involve working more closely with both the Canadian Consulate and the Canadian Chamber. Secondly, I'm here to provide Canadians with intelligence specific to the Monterrey market, and facilitate EDC-supported transactions. I want to show the business community how EDC can structure and deliver the financing and insurance they need to identify opportunities and close deals. Not only do I expect to help shorten the cycle time for completion of transactions, but also to pave the way for spin-off transactions. ■

Monterrey is the fifth location where EDC has established market representatives. Contact information for Elizondo is available on page 39.

CANADA IS ON THE MOVE

Over the past year, Canadian exporters have been the recipients of numerous awards, a testament to their entrepreneurial spirit and international achievement. We wanted to take this opportunity to acknowledge and congratulate these international trade heroes who continue to generate wealth for Canada, increase job opportunities and keep our economy strong during these challenging times. Over the next three pages, we introduce you to the 10 winners of the 2002 Canada Export Awards, a program developed by the Department of Foreign Affairs and International Trade. The theme of this year's awards ceremony was "Canada is on the move," which so aptly captures the spirit and the contribution that these exporters have made to our continued prosperity.

Following these pages, we have the privilege of presenting 98 entrepreneurs who have received various business awards during the year, including the Business Development Bank of Canada's Young Entrepreneur Awards, the Canadian Woman Entrepreneur of the Year Awards and the Branham Awards.

We salute all the winners and wish them continued success in the years to come.

ZENON Environmental Inc.

Oakville, Ontario
Dr. Andrew Benedek
Chairman and CEO

EXPORTER OF THE YEAR

ZENON Environmental Inc. is winning over environmentalists and investors alike with its advanced membrane products that improve the safety and quality of water. Zenon specializes in a chemical-free water treatment method known as membrane filtration. In the last three years, ZENON has penetrated emerging markets in Asia, Australia and Eastern Europe, establishing thousands of installations in over 30 countries, while helping to safeguard the world's water supply. **www.zenonenv.com**

"With thousands of membrane installations in more than 30 countries, we are responding to the challenges faced by municipalities and industry for environmentally sound, low-cost water filtration systems, while working to safeguard the world's water supply."

Canada Export Award Winners

DECODE Entertainment

Toronto, Ontario
Neil Court
Partner

Smaller Exporter Achievement Award

DECODE Entertainment is among the world's most innovative and successful production companies in entertainment for children and youth. Home to some of Canada's top talent, DECODE develops, produces and distributes internationally recognizable television series such as Angela Anaconda and The Zack Files, as well as interactive Web projects. The company's award-winning offerings are currently seen in more than 40 countries worldwide. **www.decode.tv**

"Our TV program and Web sites showcase Canadian creative and technological talent worldwide."

Fincentric Corporation

Richmond, British Columbia
Mike Cardiff
President and CEO

Lifetime Achievement Award

Fincentric Corporation is a global provider of banking and wealth management technology. Established in 1984, this pioneering company recognized the importance of wealth management to the financial industry early on and is now a leader, providing Web-enabled software solutions to approximately 300 customers in financial institutions worldwide. The company's strategic alliances have helped it to penetrate markets in the U.S., South Africa and Asia. **www.fincentric.com**

"The market for these kinds of services is exploding globally."

Lotek Wireless Inc.

St. John's, Newfoundland and Labrador
Jim Lotimer, President

Innovation and Technology Achievement Award

Lotek Wireless is a leading innovator in the design and manufacture of fish and wildlife monitoring systems. Whether it's tracking elephants in Africa or penguins in Antarctica, this pioneering technology company has made its mark exporting monitoring systems that use state-of-the-art electronics designed to operate under challenging conditions. A combination of technical competency and R&D spending have resulted in strong sales in 38 countries worldwide. **www.lotek.com**

"The greatest ambassadors for our products are often the scientists and researchers who use them."

NSI Global Inc.

Pointe-Claire, Quebec
David Ben-David
President and CEO

Challenging Markets Achievement Award

In business since 1990, NSI Global is an established name in the broadband telecommunications business. NSI Global is now gaining ground in the rapidly expanding remote asset management sector. This technology enables companies to monitor industrial facilities and equipment, such as oil wellheads and trucks. NSI Global has won major international clients, such as China's Ministry of Railways and PetroChina, and it experienced dramatic export revenue growth of 200 per cent in 2001. **www.nsiglobalinc.com**

"Our remote asset management and solutions give us the technological edge we need to be a competitor in the multi-billion-dollar satellite communications market."

Spielo

Moncton, New Brunswick
John Manship
Chief Executive Officer

Job Creation Achievement Award

In only 12 years, gaming product manufacturer Spielo has grown from a small Maritime company to an industry leader in the competitive, high-stakes gaming industry. Spielo designs, manufactures and operates high-technology gaming products that are setting the standard for innovation. Spielo's award-winning line of video lottery terminals is capturing major contracts worldwide, most recently in the Netherlands and the U.S. **www.spielo.ca**

"We have grown from a small business to an industry leader in a very short time."

SMART Technologies Inc.

Calgary, Alberta
Nancy Knowlton,
President, COO and co-founder

SMART Technologies is an international market leader in developing products that help people meet, teach, train and present – whether they are in the same room or in remote locations. This innovative technology company introduced its first interactive whiteboard, the SMART Board™, in 1991. Strategic alliances and R&D investments have enabled SMART to sell its products to companies, governments and educators spanning the globe. **www.smarttech.com**

"SMART pioneers the kinds of products that customers around the world value."

General Motors Defense

London, Ontario
William Pettipas
Executive Director

General Motors (GM) Defense is one of the world's leading light-armoured vehicle manufacturers, serving some of the most demanding military customers in the world. With $4 billion in export contracts in 2001 and a landmark deal with the U.S. Army, GM Defense has emerged as an exporting powerhouse. The new $6-billion joint venture to produce armoured vehicles made in Canada for the U.S. army is the largest in company history.
www.gm-defense.com

"Canadian and allied soldiers entrust their lives to the dependability and quality of our vehicles."

H. Fontaine Ltd.

Magog, Quebec
André Fontaine
Executive President

With offices around the globe, H. Fontaine has emerged as a leader in effective water management. This family-run company designs and manufactures water control gates used by hydroelectric power and waste water treatment plants. World-class environmental know-how and innovation have fuelled H. Fontaine's strong international showing. From the Arabian Peninsula to Latin America, exports to foreign markets account for 80 per cent of the company's total sales. **www.hfontaine.com**

"Technological innovations have enabled us to become a leader in our industry."

Lacent Technologies Inc.

Edmonton, Alberta
Ron Gilbertson
President and CEO

Lacent Technologies is an advanced manufacturing company on the cutting edge. This enterprising company develops and manufactures sophisticated high-speed laser cutting systems for textiles and other materials used in the automotive and industrial textile industries. In six short years, Lacent has grown from a small technology start-up to a global exporter, with customers that include suppliers to Honda and Levi Strauss.
www.lacent.com

"In six short years, we have come a long way from a small technology start-up to a global exporter."

CONGRATULATIONS!

EDC CELEBRATES CANADIAN EXPORTER AND ENTREPRENEURIAL ACHIEVEMENT IN 2002.

ACCOLADES

Encore International Inc.
Exporter of the Year

ALBERTA BUSINESS AWARDS OF DISTINCTION

ALDATA Software Management Inc.
Western Economic Diversification's Export Award of Distinction

Crown Energy Technologies Inc.
Premier's Award of Distinction

APPAREL-BC

Sugoi Athletic Apparel
Export Award

BC EXPORT AWARDS

Concord Concrete Pumps Inc.
New Exporter Award

Rapid-Span Structures Ltd.
Professional & Services Award

Cascade Aerospace Inc.
Market Sustainability Award

Crescent Custom Yachts Inc.
Consumer Products Award

Kayama Enterprises Ltd.
Marketing Innovation Award

VMAC
Manufactured Products Award

Cyril Elbers
International Business Studies Award

Fincentric Corporation
Exporter of the Year Award & Creative Partnering Award

Power Measurement Ltd.
Advancing Technologies Award

Mainframe Entertainment Inc.
New Media and Entertainment Award

Greg Kerfoot
Leadership Award

BRANHAM AWARDS

CGI Group Inc.
Company of the Year

ACD Systems Ltd.
Top Product Launch of the Year

Axia NetMedia Corporation
Top Service Launch of the Year

Castek Inc.
Transformation Company of the Year

20-20 Technologies Inc.
Alliance of the Year

Compugen Inc.
E-Business Enablement of the Year

iPerceptions Inc.
Up and Comer of the Year – Product

Questcom Consulting Inc.
Up and Comer of the Year – Service

CANADA INNOVATION AWARD OF TECHNOLOGY

LRO Oil Tools Inc.

CANADIAN WOMAN ENTREPRENEUR OF THE YEAR AWARDS

Bravado Designs Inc.
Export

Career Essentials Inc.
Start-up

Energy Savings Income Fund
Lifetime Achievement

Loony Lizard Dollar Store
Impact on Local Economy

Muttluks Inc.
Innovation

CME MANITOBA DIVISION

Vansco Electronics Ltd.
CME Excellence Award

GLOBE AWARDS

Delcan Corporation
Export Performance

Dofasco Inc.
CH2M HILL Canada Ltd.
Westport Innovations Inc.
Forest Products Association of Canada

MERCADOR AUX NOUVEAUX EXPORTATEURS

Aqua-Rehab Inc.
Croesus Finansoft Inc.
Systèmes Informatiques CHCA
Novus Design Inc.
Trak concept de cartes Inc.
Triotech Amusements Inc.
Les Entreprises Inox Inc.
Dispomed Inc.
Hydro Mobile Inc.
Les Aliments G. Dion
Éclairage Cyclone Inc.
Passe Montagne Inc.
Harmonium International Inc.
Dampex Inc.

LES MERCURIADES

Groupe Laperrière & Verreault Inc.
Foreign Markets – Large Enterprise

Les Produits Fraco Ltée
Foreign Markets – SME

NEW BRUNSWICK KNOWLEDGE INDUSTRY RECOGNITION & ACHIEVEMENT AWARDS

Dovico Enterprises Inc.
xwave

NEW BRUNSWICK EXPORT AWARDS

Dovico Enterprises Inc.
Envirem Technologies Inc.
Spielo

NEWFOUNDLAND & LABRADOR EXPORT AWARDS

xwave
Services Export Award

Canadian Iceberg Vodka Corporation
Goods Export Award

Garrison Guitars
New Exporter Award

Rodrigues Winery
Interprovincial Trade Award

NOVA SCOTIA EXPORT AWARDS

St. Margaret's Hammocks
Composites Atlantic Ltd.
Focal Technologies Corporation
Fabco Industries Limited
Garvin-Allen Solutions Limited
Surrette Battery Company Limited
Eco-Nova Productions Limited
Pictorius Inc. *(recently renamed Paragon Technology Group)*

ONTARIO GLOBAL TRADERS AWARDS

Electrovaya Inc.
Innovation Award

Applied Magnetics Group, InvoDane Engineering Ltd., Pressure Pipe Inspection Company Ltd.
Partnership Award

John Howard, President and CEO, Vineland Estates Winery
Leadership Award

International Datacasting Corporation
Market Expansion – Service

Bioniche Life Sciences Inc.
Market Expansion – Product

Ryan Kalt, Queen's University graduate and CEO, NuMedia Internet Inc.
Student Achievement Award

NORTHERN ONTARIO BUSINESS AWARDS (NOBA)

Humphrey Refrigeration
M.F. Tulloch Engineering and Surveying
North Bay Economic Development Commission
Ontrak Control Systems Inc.
Northern Telephone

Paul Brooks, Quality Hardwoods
Entrepreneur of the Year

Carmine Biasucci
Young Entrepreneur of the Year

RICHMOND HILL BUSINESS ACHIEVEMENT AWARDS

O'Hara Technologies Inc.
EDC Exporters Award

SASKATCHEWAN TRADE & EXPORT PARTNERSHIP

Interactive Tracking Solutions Inc. (itracks)
Exporter of the Year

VAUGHAN CHAMBER OF COMMERCE

Canamould Extrusions
Exporter of the Year

BDC YOUNG ENTREPRENEUR AWARDS

Woodchuck Skateboards Inc.
EDC Export Achievement Award

Evergreen Herbs Ltd.
Fire Prevention Services Ltd.
Future Aqua Farms Ltd.
Head to Toe, Hair & Body Studio
I4C Information Technology Consulting Inc.
Mumiq Music
Philley's Island Enterprises Ltd.
PropertyGuys.com Inc.
Red Flame Hot Tap Services Ltd.
Silva Care Inc.
Tell Us About Us Inc.
Timeless Technologies Inc

Letters to the Editor

Several comments were recieved on the article "Building Bridges with Your Bank," written by Laura F. MacLellan. Ms. McLellan is managing director of Think On Consulting. Here are a few samples:

I just finished reading your editorial in *ExportWise* on supporting Canadian arts and culture. Bravo! Your own leadership in supporting the arts through EDC's former association with the Governor General's Performing Arts Awards, and more recently, with the Tom Thomson exhibition at the National Gallery, is greatly appreciated by the Canadian cultural and performing arts community.
Peter A. Herrndorf
President and CEO,
National Arts Centre

We find Mr. C. Scott Clark's commentary (Fall 2002) very encouraging and truly reflecting the current situation in the countries of the Former Soviet Union.

One of our activities is to promote business development/investments with the region and we always recommend European Bank for Reconstruction and Development as the best partner to work with.

We thank Mr. Clark for this commentary and look forward to receiving upcoming issues of your publication.
Viktor Ilchenko
President,
Canada-Ukraine Trade and Cooperation Council

I just arrived back from a business trip in Tunisia last night and was going through the mail – saw the *ExportWise* magazine and your article. Very good! It is an important message and clearly written.
Diana Smallridge
President, International Financial Consulting Ltd.

The article is very good – concise, well written with good practical advice in layman terms.
Cathy Backman
SVP, e.Bank TD Canada Trust

The competition aspect which is often associated with both the banks and us, is finally clearly de-mystified.
A. Parker Gallant
President, i Trade Finance Inc.

I read with great interest the article you wrote on the Fall issue of *ExportWise*. Great article! Not only does it address the issues that many exporters confront when dealing with financing, but it also addresses the services available to exporters from banks and trade financiers (like us).
Patricia Guerra
Marketing Manager, i Trade Finance Inc.

I think your approach to the issues was very clearly presented and easy to follow. Congratulations!
Reesa Shurgold
Hong Kong and Shanghai Bank

ExportWise

Editor
Brenda Brown
brbrown@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateur avertis* is led by Anne Tanguay, in collaboration with Maguy Robert.

Contributors
Nancy Hughes Anthony, Derek Baas, Cressida Barnabe, Peter Brake, Bill Brown, Jane Daly, Noé Elizondo, Marie-Claude Erian, A. Ian Gillespie, David Goldfield, Dennis & Sandi Jones, Rod Lever, Alison Nankivell, Gerald O'Brien, Fergal O'Reilly, Stephen S. Poloz, Veronica Prochazka, Robert Simmons, Ihab Tadros, Corry Van Gaal, Bonita Williams

EDC Advisory Board
Rosemarie Boyle, Donna Choquette, Marc Deschênes, Mark Bolger, Andrew Douglas, Judy Dudley, Ruth Fothergill, Linda Graupner, Glen Hodgson, Walt Hutchings, Suzanne Joberty, Alison Lawford, Diana MacGibbon

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

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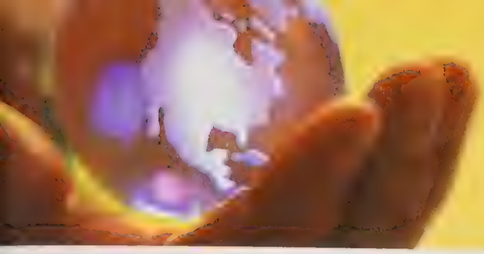

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC's Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

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For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

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Does your foreign buyer need a loan?

Perhaps EDC's Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's web site at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

For more information on these products visit **www.edc.ca/financing**

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What if my buyer demands a bond?

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What if my buyer calls my bond even though I didn't do anything wrong?

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For more information on these products visit **www.edc.ca/bonding**

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Want some market insight that will actually help you make a decision?

Check out EDC's EXPORT MarketInsight, economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.

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Determine the credit profile of more than 70 million buyers, on-line and anytime, with EDC's EXPORTCheck.

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Need to insure your bid or performance – FAST?

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Are you ready to enter the export market?

Test your readiness by completing EXPORTAble?, an on-line questionnaire to help you prepare your entry into foreign markets.

For more information on these products visit **www.edc.ca/e-services**

Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at 1-800-850-9626.

Could you use more working capital?

With EDC's Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC's Simplified Contract Bonding, a streamlined application/ approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

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EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Emerging Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in new and emerging markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Rough Crossing

The economic and financial seas have been so turbulent lately it is hard to tell whether the tide is rising or falling. But the world has demonstrated remarkable self-healing properties in the past year, and will do so again. 2003 will be a better year for Canada's exporters, but business will remain sub-par.

by Stephen S. Poloz

One year after the horror of 9-11, uncertainty still rules. The result has been a period of intense financial volatility, the likes of which has not been seen since the 1970s.

The sources of economic and financial uncertainty are numerous. The war against terrorism continues, without closure. Corporate malfeasance is now measured in the billions of dollars, and the associated stock market fallout in the trillions, which makes consumer finances look increasingly fragile. South America is in turmoil. Japan appears to be inching closer to a financial crisis. Trade protectionism has reappeared on the radar screen. And the spectre of war in the Middle East hangs over the entire economic landscape, boosting oil prices.

Amid all this uncertainty, two important psychological shifts are emerging. The first shift is an increased willingness on the part of consumers to live for today. North Americans and Europeans are feathering their nests and spending more time at home with their families. Meanwhile, a new consumer generation is making an appearance throughout developing Asia, a generation that is willing to spend and to use consumer credit to do so.

The second shift is a profound loss of faith in stock markets. This has people turning back to hard assets like real estate and gold as long-term investments. Just like when financial markets turned ugly in the 1970s, it will be a long time before ordinary investors are drawn back into equity investing to the extent they were before – the new interest in housing will not be a passing fad.

These shifts in consumer psychology are making it harder than usual to read the economic tea leaves. Ironically, just when the world economy is being buffeted by a multitude of unusual shocks, and economic models could help us understand their implications, the models seem to lose their predictive abilities.

With so much uncertainty, the economic waters are likely to remain very rough during the next year; so rough, in fact, that it may be difficult at times to discern whether the tide is rising or falling. Nevertheless, the world has demonstrated remarkable self-healing properties in the past year, and these properties are very likely to prevail again in the coming year. Consumer spending will continue to support economic growth, given the underlying shifts in psychology, and investment spending by companies will eventually follow.

The world economy faces a rough crossing, but safe harbour is visible in the distance. The global healing process is continuing at a gradual pace. This year will end up being slightly better than last year, and 2003 will be stronger still, although the world economy will still fall short of its potential. And, even this unspectacular outlook assumes that there will be no new major shocks. In particular, a major Middle East event that would push oil prices significantly higher for any length of time would delay the global healing process, making 2003 essentially a repeat of 2002 – sluggish and volatile.

The signs of economic healing are strongest so far in developing Asia, where growth is likely to average six to seven per cent this year and next. Even Japan is likely to participate in that upturn next year, although only to a modest degree. South America and Africa will lag behind in the global recovery, given their respective difficulties, but 2003 will see an improved outlook for both. Growth in the U.S. and Western Europe is likely to remain sub-par again next year, in the 2.5 to 2.7 per cent range, although the emerging economies of Eastern Europe will do better. Canada's growth will lead the G7 again next year, at around 3.7 per cent, and Mexico's growth will top four per cent.

The bottom line? Canadian exporters will continue to see a gradual improvement in their markets as 2003 unfolds. By the end of 2002, our exports should have recovered to the record level seen in early 2001. For 2003, we expect solid growth in export sales of around six per cent. ■

Stephen Poloz is EDC's vice-president and chief economist. He can be reached at spoloz@edc.ca. EDC's Fall Global Export Forecast may be viewed at www.edc.ca.

EDC Contacts

Companies with annual export sales of **up to $1 million** can call our team of SME specialists at

1-800-850-9626

Companies with annual export sales **over $1 million** can call the nearest region office by calling

1-888-332-3777

Western Canada

Lewis Megaw
Regional Vice-President

Vancouver
Tel: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto
Tel: (416) 640-7600
Fax: (416) 862-1267

London
Tel: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel: (613) 597-8688
Fax: (613) 598-3811

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel: (709) 772-8808
Fax: (709) 772-8693

contactatlantic@edc.ca

International

Mexico
Marvin Hough
Regional Director for Mexico & Central America
Tel: (011) 5255-5387-9316
Email: mhough@edc.ca

Noé Elizondo
Regional Manager
Monterrey, Mexico
Tel: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel: (011) 55-11-5509-4320
Email: cescobar@edc.ca

Poland
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel: (011-48-22) 584-3240
Email: dgoresky@edc.ca

China
Alison Nankivell
Regional Director for China
Tel: (011) 86-10-6532-3536, ext. 3357
Email: anankivell@edc.ca

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
Tel: (613) 598-2500 • Fax: (613) 237-2690 • **www.edc.ca**

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www.edc.ca

Spring 2003

ExportWise

EDC Joins the Circus

Jean-Pierre Dion of Cirque Éloize does his own special brand of juggling to keep the company in the air

In This Issue

Trade:
A Vital Link in the Innovation Agenda

A. Ian Gillespie
President and
Chief Executive Officer

Few would debate that innovation is vital to achieving greater prosperity for Canadians. Yet, surprisingly, most people overlook one critical aspect of Canada's innovation agenda: the role of international trade and investment.

Much has been said about how innovation links to increased productivity, which in turn links to rising prosperity. Essentially, innovation means finding new and improved methods of doing anything from managing people to manufacturing goods or delivering services. When these improvements help reduce costs and/or attract more customers, then enhanced prosperity generally follows.

But there is another vital link

International trade and investment are the links between the innovation equation and much greater potential for prosperity. Global potential! Pursuing trade and investment outside of Canada immediately increases the number of potential business opportunities.

Trade agreements such as the FTA and NAFTA, in addition to promoting international investment, have drawn more Canadian companies into the global marketplace. Empirical studies suggest that innovation and productivity are higher among export-oriented firms. A study by Statistics Canada, entitled *Multinationals and the Canadian Innovation Process*, affirms that export-oriented companies pursue R&D and innovation more actively than companies focused solely on their domestic market.

Expanding into international markets frequently provides the means for Canadian companies to grow from small to large. Also, large firms tend to be more innovative than smaller companies because they benefit from economies of scale and scope, enjoy greater access to financing, and can invest in more R&D.

Today, Canadian productivity is higher as a result of trade liberalization, and this increased productivity reinforces Canada's ability to compete in international markets.

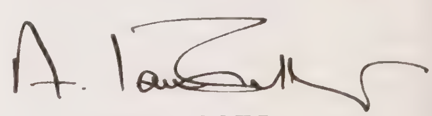
A new global reality

The risks associated with international trade have increased significantly post-September 11, 2001, with a potential long-term impact on the world economy. Canadian companies engaged in international trade have an increased stake in managing their trade risk, and they face a greater need for financial intermediation. In addition, to help them with the successful commercialization of innovation, Canadian firms need enhanced financial capacity.

Fostering innovation can be done via improvements to the tax system or changes in regulatory regimes. It can entail developing a better learning system to produce a higher-skilled workforce. It can also mean strengthening communities so they continue to be magnets for investment and opportunity.

But let's not forget the role of trade and investment. Greater prosperity, which is the ultimate goal of innovation, cannot be achieved without these essential elements. This means continuing efforts to further liberalize international trade. It also means continuing to work towards freer flows of investment. Finally, it means providing sufficient financial capacity to facilitate international trade opportunities on behalf of Canadian companies.

Trade and innovation are integrally related. Take away international trade, and the incentive to innovate is vastly reduced, especially in a small economy like Canada. Facilitating trade and international investment is perhaps the most important thing we can do to foster innovation in Canada. ■



A. Ian Gillespie, C.I.T.P.

ExportWise
Spring 2003

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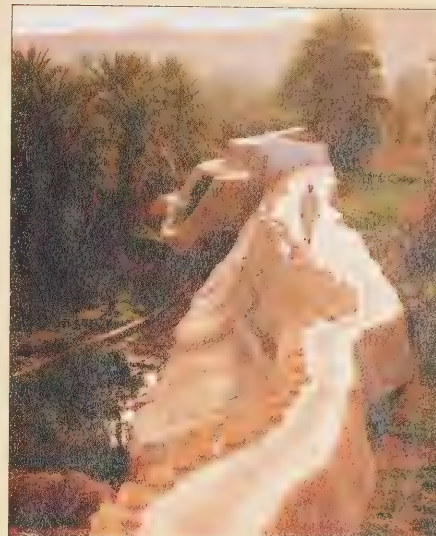

Small Business Solutions

Exporter Showcase

Country Features

On the Ground

Commentaries

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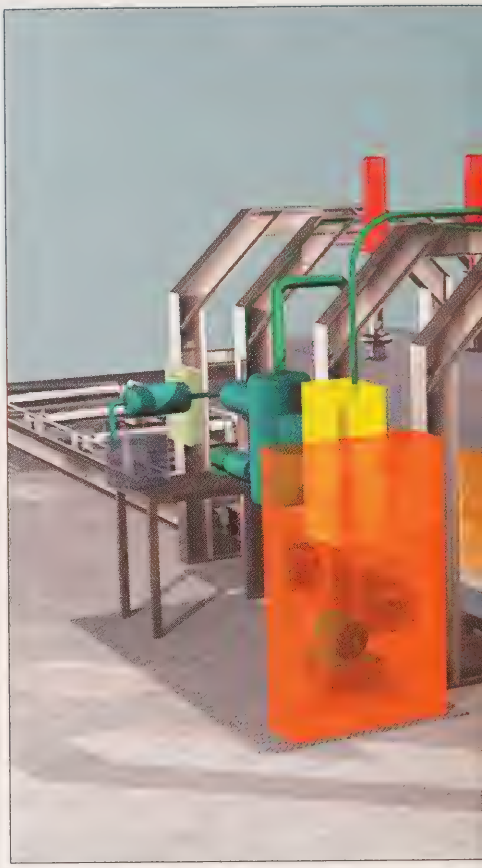
In Every Issue

Cover Photo
Doug Millar Photography with the collaboration of École de Cirque de Verdun

CPC Agreement No.: 40063481 | MDS | 2750 Sheffield Road | Ottawa, Ontario K1B 3V9

HeatWave:
Some Like it Hot



BY **JANE DALY**

When HeatWave Technologies Inc. asked Steve Curran to become their CFO in 1999, he promptly turned them down. Comfortably established in Toronto, he wasn't willing to risk giving up his secure career at a major financial institution for a company that could count its years in business on one hand – not to mention asking his family to take the risk with him by moving clear across the country to B.C.

Nevertheless, Curran did agree to view HeatWave's technology while he vacationed on the West Coast a few months later. Once he saw the possibilities, he knew this was a gamble he was willing to take.

"I've seen other technologies that are very impressive, but there's not a lot of real use for them," says Curran. "Not so with HeatWave. I saw many applications for it and that's what convinced me to join the company."

Developed through years of research, HeatWave's technology is indeed revolutionary. The company develops, manufactures and markets advanced heating and drying solutions using what they have termed E-field™ (Energy-field), and the technology is already making waves in the wood products and food processing industries. The E-field systems use radio wave energy, which causes water molecules in the product to rotate at a fast rate, thus inducing friction and heating the product.

In action, HeatWave's machines are somewhat similar to giant microwave ovens, penetrating products up to 1.5 metres in depth. The big difference, however, is that the E-field system uniformly penetrates the entire product volume simultaneously, so there are no wet or cold spots. While using radio frequencies to heat things is not new, E-field has resolved the many problems that plagued this process, and can be applied at intensities up to 10 times greater than current systems.

Compared to other drying methods in the lumber industry, the E-field process is completed in hours rather than days. The technology is also being used in the food industry to kill bacteria during processing. E-field solves the problem of uneven heating which occurs with other methods. These other methods require that large vats of food be mixed half way through the heating process.

"Our technology has helped customers by providing benefits that surpass other heating or drying technologies," says Curran. For example, energy efficiency, fast drying times and superior product quality played a significant role in Hampton Lumber's decision to purchase an E-field vacuum wood kiln. The kiln can re-dry a large volume of wet lumber and will save the Washington-based company millions of dollars.

In the food sector, HeatWave is unveiling a new laboratory at the Guelph Food Technology Centre in Ontario, an independent company that specializes in the development and transfer of product and process technology. This leading-edge testing facility will enable customers such as Kraft Foods and Campbell Soup Company to investigate potential food-processing applications using E-field systems.

The risk pays off

Curran is now the president of HeatWave, and it's clear that his – and EDC's – gamble on the company has paid off. "As CFO, it was my job to raise funds and set up an Initial Public Offering (IPO)," says Curran. "It all looked easy but then the whole technology sector crashed, and it became much more difficult."

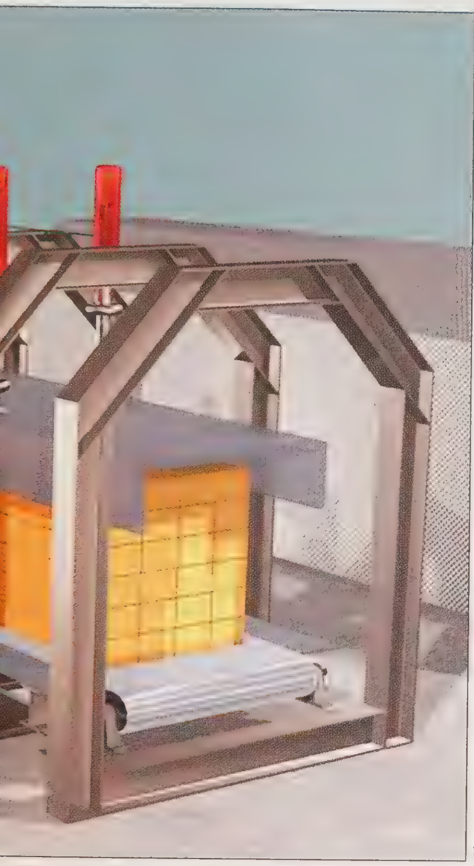


Photo courtesy of HeatWave Technologies Inc.

Curran says that EDC's early venture capital support helped to attract other large institutional and well-regarded investors. "In many ways, EDC acted as a catalyst, providing HeatWave with the funds to enhance existing sales opportunities in the wood products industry and foster new opportunities in the food products industry," he says. "In addition, the support of EDC as a shareholder gives our customers the positive indication that HeatWave is a solid company. The result is customers are more likely to do business with us."

COMPANY PROFILE

Business: Develops, manufactures and markets advanced heating and drying solutions
Locations: Vancouver, Crescent Valley, Mississauga
Established: 1995
Employees: 22
Exports: At least 50 per cent of 2003 sales
Export Markets: United States, anticipating Europe in 2003
Contact: www.heatwave.com

Why is it so Hard to Get Venture Capital?

BY **JENNIFER BROOY**

During the high tech boom, venture capital was relatively easy to get. This sector benefited from unprecedented industry backing, particularly in 2000. But following the high in 2000, venture capital quickly dried up as the following statistics so clearly show.

In 1999, investment activity within the Canadian venture capital industry for the full calendar year was $2.6 billion ($1.5 billion for nine months); in 2000 it was $5.3 billion ($3.5 billion for nine months); 2001 $3.9 billion ($3.1 billion for nine months); and for the first nine months in 2002, it dropped to $1.7 billion.*

From a high of $3.5 billion over a nine-month period in 2000, to a low of $1.7 billion over the same comparative period in 2002.

Traditionally, venture capitalists (VCs) have not been as generous with traditional industry sectors, and with the high tech bust, entrepreneurs of all sectors are having an even more difficult time, despite good business models and reasonable valuations.

Venture capitalists can consider several things when deciding where to invest, and these include:

- company-specific factors, such as quality of management or size of target market
- external factors the company has no influence over, such as the general economy
- innovation/intellectual property
- timing to market, and
- exit strategies.

While innovations are easy to spot through a comparison with existing technologies, what is more difficult is the ability to:

- adequately protect the intellectual property associated with the innovation
- predict future technological advancements (that may disrupt or cannibalize the innovation)
- capitalize on a "lead to market", and
- assess the rate of market adoption.

VCs are still investing, albeit cautiously, with a view to bringing new products to market when the economy revives because they know that, as history demonstrates, the economy is cyclical and is bound to turn around eventually. This also recognizes that it often takes a number of years to produce a core product from initial design to commercialization.

With the current economy, many VCs are likely conserving their resources for follow-on rounds. In the meantime, while waiting for that upswing, EDC's venture capital services can be especially helpful.

Jennifer Brooy (jbrooy@edc.ca) is director of EDC's Equity Team.

* Figures obtained from Macdonald & Associates Limited

Never Break the Golden Rule

BY **BRENDA BROWN**

For Sandra Chandler, president of Chandler Marine, some lessons come with a steeper price tag than others.

"In 2002, we broke the golden rule among boat builders and allowed a boat to leave our showroom with only the down payment in place and seemingly sincere promises for payment within one day of the boat's arrival at destination," she says. "When the product crossed the border, our customer refused to pay, the boat was hidden and stripped and we are spending a great deal of time and money to get paid. We have learned a hard lesson."

Fortunately, this lesson has not taken the wind out of the sails of this Dartmouth, Nova Scotia-based company. Known the world 'round for their ability to "manufacture just anything made of fiberglass," Chandler Marine builds fishing and pleasure boats, as well as Canadian Coast Guard approved tour boats for whale watching.

"Our product was designed in Iceland and is built to Nordic standards for fiberglass boats under 14 metres. That fact, as well as the vessel's appearance, seems to attract the attention of European fishermen."

Today, Chandler is selling their products in Europe, the South Pacific and the United States, with 68 per cent of their sales export-related.

Chandler Marine is part of a vibrant export sector in Canada called sporting goods, which has had its own fair share of ups and downs.

"On the surface, things look rough for Canadian companies exporting sporting goods and specialty products such as pleasure and fishing crafts," says Claudia Verno, an economist with EDC's Market and Economic Analysis Division. "But looking forward, there is a ray of sunshine on the horizon."

"There's no question that American consumers (the U.S. accounts for about half of Canada's sporting goods exports) are not buying with the zeal that they once did," she says. "This comes as no surprise given the country's lagging economy, since luxury items such as sporting goods are usually the first to go when times get tough."

Despite this, the situation is by no means desperate. "Long-term demographic and social factors support the expansion of this market over the next few years and we predict exports of sporting goods to grow by five per cent in 2003 alone," she says. "The baby boomer generation, which accounts for 77 million people in the United States and 10 million in Canada, are reaching their peak-earning power. Given their attachment to health and fitness, baby boomers are expected to continue spending a lot of their discretionary income on sporting goods and fitness equipment as they grow older."

For example, the International Health, Racquet & Sportsclub Association recently reported that between 1987 and 2001, health club memberships rose by 90 per cent.

This is good news for companies such as Quebec-based Groupe Procycle Inc., Canada's largest manufacturer and distributor of bicycles and fitness equipment.

Lise Bizier, director of credit for Procycle, says it's important to have a strategy to deal with slowdowns such as the one which hit the industry in 2001 and 2002. One of their strategies is to build on the company's vast retail network in the United States and Europe, to ensure their products are getting into more consumer's hands and to spread the risk.

"Our dealers are our number one reason for success. If they have a problem, they know we'll work it out together. When they call, they don't get an answering machine. They get a real live person who is there to deal with their concern."

Diversity of product, as well as network, has also been key. "Bicycles are a seasonal business and we knew we had to diversify to take advantage of our plant capabilities. We acquired Rocky Mountain which produces high-end bicycles, and Body Guard, world renowned for their fitness equipment (treadmills, stationary bicycles) so we can be operational 12 months of the year."

Given the tough global competition Procycle faces, Bizier says there is no substitute for managing credit risk than good old-fashioned legwork. But she is equally quick to point out that she also uses Accounts Receivable Insurance from EDC as the "last line of defence."

"When I look at a deal, I try to forget that I have insurance because I don't want that to influence my decision."

But having said that, neither would she consider exporting without coverage: "It lets me sleep at night because this type of insurance protects you against nonpayment (covers up to 90 per cent of the loss) and can help free up your working capital because banks like the added security it brings." ■

balization

IS-RICHARD

of dynamic and visionary busi-
Mondiale (FOFM) is a Canadian
the full participation of micro-,
ndustries in the global market.
renariat, an international economic event held every two years that brings together business leaders from Francophone Africa, Europe, Latin America, the Caribbean and Asia to network and exchange information.

Photo: Doug Millar Photography

The Mondial formula meets the needs of smaller businesses in an era of globalization. The original, flexible format is modelled entirely on the work environment of enterprises, recreating a business office right in the heart of a global economic market. The entrepreneurs manage their time without any preset schedules.

In concrete terms, the Mondial shrinks the planet down to a few square meters. The business people attending make it their mission to exchange information about their resources, contacts and know-how, to explore opportunities for expansion, to meet serious economic partners, to develop new business projects and to sign fruitful business agreements. The greatest advantage is that participants can tour the world in three days. Approximately 20 countries are represented at each event.

To support entrepreneurs in their business dealings during the events, we set up three specialized service areas that provide a variety of resources: the business centre, the "bull pit," and the training centre.

A proven success

The Mondial events are synonymous with excellence and quality, as attested to by the fact that 211 trade agreements and 102 business partnerships worth several hundred million dollars have been signed during these events, not including transactions entered into after the Mondial.

Where to invest and how

You may be one of those entrepreneurs who would like to invest abroad but don't know where. It is important to take your time to seek opportunities and examine what is available. Africa, for example, is a large market. Several entrepreneurs have taken a chance on Africa and come up winners. Patience and the right partner are the most important factors for anyone wishing to invest.

At this time, Latin America is popular. In a few years, Latin America will be a leader in the international marketplace. The population is young, ambitious and eager to work. Latin-American entrepreneurs are seeking to expand their borders, and Canadian entrepreneurs are more than welcome to explore the possibilities.

The future of FOFM

There is a great deal in store for FOFM in the future. We are in the midst of organizing a Mondial Afrique event to be held in Douala and Yaoundé, Cameroon, from March 30 to April 6, 2003, which will be attended by a delegation of Canadian entrepreneurs.

We also recently signed a draft agreement with the *Jeune chambre economique of Algeria* and the *Fondation d'appui aux initiatives de base en Afrique* for future events.

To find out about participating or to register with the Canadian mission to the Mondial Afrique, visit the Mondial web site, www.lemondial.org.

Geneviève Dubois-Richard is the editor in chief, Le Mondialiste. She can be reached at genevieved@nbac.com

Stats on the States: Getting Practical

BY DENNIS AND SANDI JONES

Doing business in the United States can be risky, particularly if you're an inexperienced exporter. However, you can significantly diminish that risk and vastly improve your prospects of success by getting some practical help before you venture south of the border. In this article, we'll profile three key organizations who specialize in providing such hands-on assistance: Ontario Exports Inc. (OEI), the Business Development Bank of Canada (BDC) and Export Development Canada (EDC).

OEI: Climbing the learning curve

OEI is the Ontario government's lead trade agency, helping Ontario firms penetrate foreign markets. Participants in its New Exporters to Border States (NEBS) program spend two days at a U.S. entry point where they learn about everything from U.S. pricing to American customs procedures.

"NEBS is critical," says Ken Campbell, the program's coordinator. "Overall, we find that a third of the people in a NEBS program are exporting already. Of the non-exporters, 45 per cent of them are exporting to the U.S. within our two-year follow-up period."

One pitfall, according to Campbell, is the sheer size of the American market. "Everybody knows the U.S. has 10 times Canada's population. But then they forget that a U.S. customer will want 10,000 widgets instead of 1,000. Can they make that many widgets? You have to be aware of what you're getting into."

BDC: Getting the goods

For fledgling exporters, BDC offers consulting services to help with issues ranging from market research to export financing. "You can get all you need from BDC," says Claude Venne, a BDC consultant specializing in the U.S. export market, "and it's a lot better to spend money on a market study, for example, than risk losing your company."

BDC can also help exporters obtain capital for expansion, plant overhaul and new technology. And for small businesses just entering the export marketplace, the Bank offers innovation loans of up to $250,000.

The right product and preparation can lead to abundant success in the American market. "We started working with a company that makes high-end display furniture," Venne says. "The key was to identify one profitable strategy and the product we could position best. Now, 98 per cent of the company's business is in exporting."

EDC: Mitigating risk

"There's a huge opportunity in the U.S.," agrees Tom Sloan, director of the Consumer Goods Business Team at EDC, "but the risks are also huge. Bankruptcies in the U.S. have increased 20 per cent year-over-year for the past couple of years." Such bankruptcies may spell serious trouble for a Canadian exporter unable to collect what it's owed – unless, that is, the firm has EDC's Accounts Receivable Insurance, which covers up to 90 per cent of a contract when the buyer defaults.

Insurance is far from the only resource EDC offers. Among the others are market research, export planning, customer credit checks, market intelligence and export financing. This last service can be vital for exporters. "We have a company that has grown their U.S. business tremendously," says Sloan, "but they sell largely to one U.S. buyer, so there's a lot of buyer risk concentration. But we've worked with them to get the margining from the bank to support this type of large transaction."

Words to the Wise

These experts agree that the U.S. market can be a solid opportunity for well-prepared Canadian firms. Some of their key recommendations:

- Start slowly. Test the market and develop ties with U.S. companies whose people share your outlook.
- Do your due diligence. Assess the character of your prospective American customer and obtain the financial and trade reference information you need to understand the risks of dealing with the firm.
- Ensure that you have the right tariff classification and know whether your product qualifies under NAFTA as a Canadian product.
- Be knowledgeable about your U.S. federal and state tax liabilities, and about U.S. immigration regulations and how they may apply to your export project.
- Find a good lawyer. American and Canadian laws can be significantly different, which can cause you difficulties.
- Establish the financial and production capacity to cope with U.S. levels of volume.
- As a new exporter, avoid national shows – they're too big. Attend regional shows where you can get closer to potential customers.
- If you need on-the-spot representation for activities such as customer relations, consider hiring a U.S. agent.
- Concentrate on customer service. A real sale is when you get a repeat.

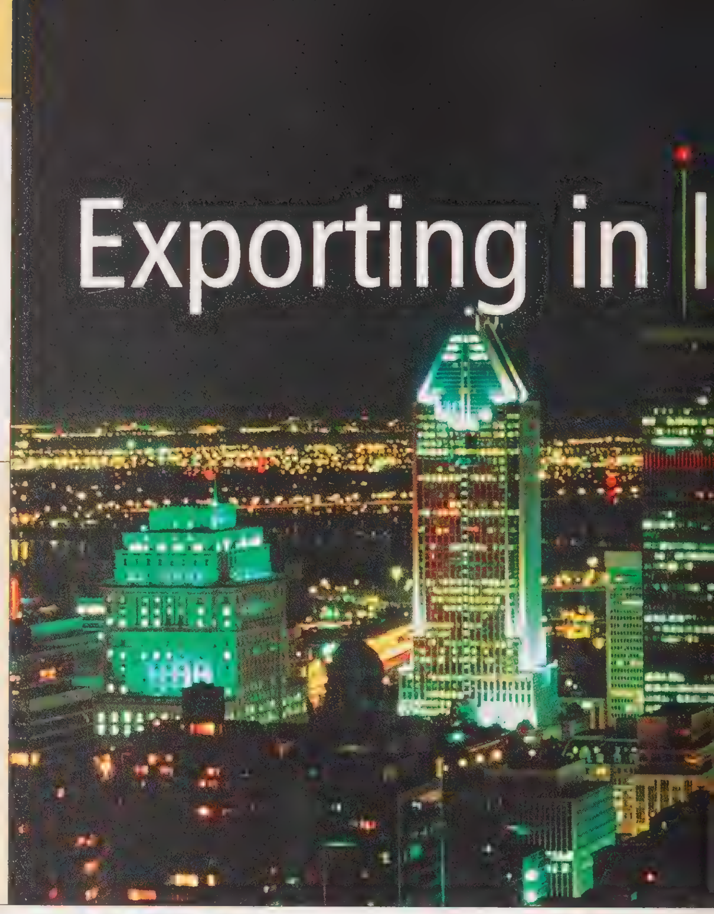
Finally, as Claude Venne says, "Have a vision of what you want to do in the U.S. Then make sure you've got the right product and the market study to back up that vision."

Start there, and success awaits you down the road!

Who to Contact

Business Development Bank of Canada: www.bdc.ca / 1-877-BDC-BANX (232-2269)
Ontario Exports Inc.: www.ontarioexportsinc.com / 1-877-46TRADE (8-7233)
Export Development Canada: www.edc.ca / 1-800-850-9626

Quebec: Exporting in



BY **PETER BRAKE**

With more than 5,000 exporters boasting annual sales of $90 billion, Quebec's export community is as rich and diversified as the province itself. While fur trade and lumber provided the basis of exports centuries ago, today's products and services range from multi-media and entertainment services to aerospace and telecommunications.

"Many people believe that Quebec's exports are primarily commodity-based," says Paul-Arthur Huot, president of Quebec Manufacturers and Exporters (QME). "While we do continue to capitalize on these strengths, our expertise now encompasses just about every speciality sector."

Not surprisingly, technologically advanced exports in the aerospace and telecommunications sectors are important to the province's economy. Quebec-based companies are world leaders in developing regional and longer range aircraft, commercial aviation training and flight simulation equipment, and are intensely involved in designing next-generation commercial helicopters and turbo-prop aircraft. Exports of aerospace products and services from Quebec amounted to more than $10 billion in 2002. The high tech industry produced 28.4 per cent of Quebec's total manufacturing exports and currently, three jobs out of four in the manufacturing sector depend on exports.

Also taking on an increasingly important role are service exports such as engineering consultation, environmental techniques and cultural and multi-media expertise, which now constitute more than 20 per cent of the province's exports. That's good news for Quebec because employment generated from service exports is double that of product exports.

"Not very long ago, service providers were focused on providing high quality support to major Quebec manufacturers and large public projects," says Huot. "Now these same companies have become exporters in their own right, garnering international recognition."

"We are all part of a dynamic, resourceful and optimistic export community," adds Marc Parent, president of Tecsult International Limited, and a member of QME's board. "Quebec companies are highly regarded for their diversity, creativity and flexibility."

He points to cultural diversity as one reason why Quebec's cultural exports are noted for their flair. "Since 1960, more than 600,000 Portuguese, Haitian, Lebanese, South American and Asian immigrants have moved to Quebec, opening our minds and hearts to different styles, tastes and culture. Our success in creating and exporting world famous multi-media performances, leading edge animation and cinematography is attributable to a mindset that embraces these differences."

Investment in research and development and new technologies innovation have also been instrumental in diversifying Quebec exports. There are more than 43 public research institutions in the province serving as incubators of knowledge and expertise. Both federal and provincial governments offer support and assistance to small and emerging exporters, as well as larger more experienced exporters.

belle province

"A coordinated approach is essential," he explains, adding that a recent merger of three ministries will help facilitate the province's export support services. "Quebec exporters will benefit from enhanced coordination of government programs and communication." Huot notes that Quebec exporters are increasing their own efforts by developing round tables, seminars, exhibits and trade shows for large and emerging exporters. "Associations have a role to play in facilitating networks for sharing information, pooling resources and demonstrating best practices."

"Quebec's effective business associations and networks is one of the key reasons why EDC was able to achieve its highest market penetration rate in the country," says Françoise Faverjon-Fortin, EDC's Quebec regional vice-president. In 2002 alone, EDC helped more than 2,500 Quebec exporters access global markets, facilitating close to $16 billion of Quebec's exports.

"Our exporters have benefited tremendously from EDC's expertise in managing risk," says Huot.

"We have international trade experts right here in Quebec, in the exporter's backyard, to help them find the right financial solution for their export deals," says Faverjon-Fortin. "This presence means we understand our customer's businesses and can quickly adapt to their changing needs and requirements. We have three regional offices located in Montreal, Quebec City and the Outaouais – so we are where we are needed the most."

So is continuing success assured for Quebec's exporters? The world economy is in a period of risk and uncertainty and competition is increasing. Over the past decade, exports have been propped up by a favourable exchange rate and free trade, but these advantages may not be permanent or enough.

The key to continued success is improvements in productivity, agree Huot and Faverjon-Fortin.

"As good as Quebec exporters are, others are getting better," says Huot. "It's time to stop talking about plant modernization and develop a comprehensive strategy and action plan to make it happen. NAFTA and the Canadian dollar have given us an edge, but the productivity gap is starting to chip away at that advantage." ■

EDC facts

- 40 per cent of EDC's customers are from Quebec
- More than 90 per cent of the customers served in Quebec are small and medium-sized businesses
- Quebec accounts for 30 per cent of EDC's business volume

Did you know?

- Quebec exports of electricity accounts for 14 per cent of global production.
- In the highly competitive aerospace sector, Quebec is ranked sixth in the world.
- Three out of four jobs (in excess of 642,000) rely on manufacturing-based exports.
- Quebec is home to half of Canada's pharmaceutical industry. There are more biotechnology and life sciences companies in Quebec than in any other province in Canada.
- Quebec has one of the highest penetrations of Internet access in the world. Montreal was ranked No. 12 among the hot spots high-tech networks by *Wired* (July 2000), ahead of Tokyo, Los Angeles, and Hong Kong.

Photo Yann Gamblin

EDC Joins the Circus

BY JANE DALY

Perhaps the only thing more diverse and extraordinary than the enchanting acts of Cirque Éloize's latest creation, Nomade, are the adventure-filled life stories of those who have been drawn to perform here. The contortionists, acrobats, musicians and clowns have come from all walks of life, and from as far away as Switzerland, Guinea, France and Poland.

One performer was raised by circus parents and has been juggling and riding a unicycle since the age of three, while others took acro-sports, dance, gymnastics, theatre or music before finding a place in the circus spotlight. But all have one thing in common: an utter passion for the circus lifestyle. As one performer says, "Joining Cirque Éloize is finding the magic, craziness and spirit of adventure [I] was looking for."

"We don't make a product you can pack in a box," explains Dion. "We package dreams and emotions and bring them to the world."

Photo: Doug Millar Photography

Seven performers, all graduates of Montreal's National Circus School, founded Cirque Éloize in 1993. They didn't want to offer regular circus fare; their goal was to design shows that would speak to international audiences of any language, and would be performed in a theatre rather than under the big top. Since then, Cirque Éloize has staged more than 1,200 performances in some 200 cities and 20 countries, for audiences totalling two million people. Today, Cirque Éloize is diversifying its activities, offering circus workshops for corporate events and customized circus shows for public and private functions worldwide. The company is also looking for business partners and sponsors with whom to develop projects.

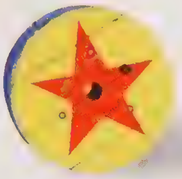
For those of us who studied business or accounting, it's hard not to feel a little regretful that we let our childhood dreams of joining the circus slip away. But thanks to Jean-Pierre Dion, we can hold on to the vestiges of that dream, no matter how far we've travelled along life's more practical path.

Although Dion is a financial manager, he says he's part of the circus too. "I'm a juggler," he quips. "I juggle with numbers." Looking at all the financing that goes on behind the scenes of a circus, however, it's clear that Dion does in fact perform some amazing feats. Salaries, props, lighting, special effects, costumes, choreography, music, travel – all these costs and more are incurred before the audience lines up to buy tickets.

A banker's wariness regarding the entertainment industry can also make it difficult to get financing. "We don't make a product you can pack in a box," explains Dion. "We package dreams and emotions and bring them to the world." One of those dreams was the troupe's second production, Excentricus, a mélange of circus arts, dance and music. Excentricus was presented more than 550 times at different venues, including the prestigious Edinburgh Festival in Scotland.

Excentricus was Cirque Éloize's first introduction to EDC. "We had contracts to stage the show, but we needed insurance to get a line of credit," says Dion. "EDC saw us as business with a product to sell, even though it's not made in a factory. This showed us that they're not just 'money' people."

With their latest creation, Nomade Cirque Éloize has produced its largest



and most magical show to date. Inviting the audiences on a surreal journey along the highways and byways of their imagination, the performers fill the stage with breathtaking song, dance, music, juggling and acrobatic feats, all in celebration of man's wandering spirit and quest for adventure.

"This time we needed $650,000 to put the show together," Dion says. "We talked to EDC about their Pre-shipment Financing and discovered we were the first company in the entertainment industry to take advantage of this."

Through the combined efforts of Anne-Louise Rouleau, director, Corporate Financing, La Caisse d'économie Desjardins de la Culture, and Marc Beaulieu, financial services manager with EDC's Small Business Financial Solutions Team, EDC was able to guarantee part of Cirque Éloize's line of credit, so they could obtain much needed working capital.

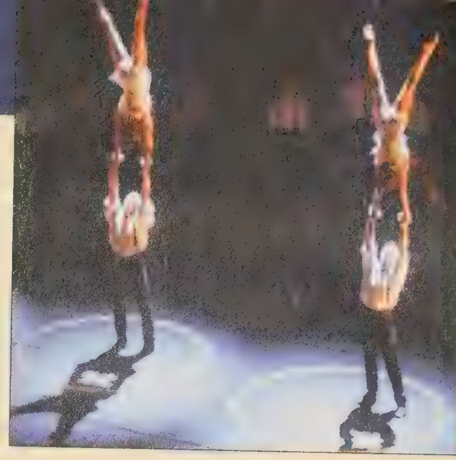
"With Pre-shipment Financing, we can guarantee up to 75 per cent of the loan, so that the bank is in for 25 per cent," says Marc Deschenes, senior business development manager with EDC. "The reason we started Pre-shipment Financing is because banks don't generally finance 'work in progress' such as the entertainment industry has. These industries also face the misconception that if a company is creative, it is also less structured. While this is not true, our guarantee gives these companies the credibility they need." ■

COMPANY PROFILE

Business: Circus entertainment involving dance, music, juggling and acrobatic feats
Location: Montreal
Established: 1993
Employees: more than 100
Exports: Approximately 80 per cent
Export Markets: United States, Europe, Asia
Contact: www.cirque-eloize.com

Entertainment

BY **JEAN-LOUIS RENAUD**



Export outlook

We normally associate exports with the manufacture and sale abroad of tangible goods. This causes us to overlook the smaller but still important services export sector. This sector, which had exports of $65 billion in 2001, includes a wide array of export services such as tourism, airline travel, medical procedures, educational services, broadcasting rights for hockey games and other sports events, engineering and architectural services. Unfortunately, the rapid growth of the cultural industry has been overshadowed by the diversity and size of the total services export sector. This profile aims to show that culture, too, is big business.

- Cultural goods and services are marketable commodities like any other exports. Canadian exports of art and culture are highly competitive internationally and have a profound impact on the Canadian economy. The domestic arts sector accounts for $20 billion of economic activity and 600,000 jobs.
- Exports of personal, cultural and recreational services have grown at a slow though steady pace throughout the 1990s. Exports from this sector, which include the activities of artists performing abroad, have grown from $150 million in the mid-1990s to almost $180 million in 2000-01.
- Fees to actors or participants in theatrical or musical productions, organized sports, and other activities intended for broadcast abroad are included in "exports of audiovisual services." This sector, which includes the entire gamut of electronic cultural exports, like music CDs and copies of films and other recorded media, has experienced substantial growth in recent years, from $877 million in 1995, to $1.8 billion in 2000 and $1.9 billion in 2001.
- Canada's film and television production industry has seen impressive growth in recent years. Data compiled by PricewaterhouseCoopers on behalf of the Canadian Film and Television Production Association indicate that the industry has grown by about seven per cent annually since 1996-97. Canadian film and TV production achieved revenues in 2000-2002 in excess of $5 billion.

Opportunities

- In 1998-99, 40 per cent of international tours by Canadian touring companies was in the U.S. and 48 per cent in Europe. Europe is traditionally the most important market for Canadian productions. This indicates a much lower dependence on the U.S. than traditional Canadian exports.
- The Canadian film and television industry has benefited in recent years from a relatively weak Canadian dollar, but most importantly, it benefits from tax advantages designed to improve the country's international competitive position.
- The film and television industry is expected to continue growing annually by seven per cent.

Key issues to watch

While Canada's film and television industry is still fairly small, its substantial recent growth has raised the possibility of retaliation from the U.S. So far, this has not materialized, though it remains a concern.

Canada is but one of many countries trying to build up its industry through tax breaks. Given the importance of labour costs in cultural productions, other countries may become relatively more attractive as a production base for the audiovisual industry as the Canadian dollar increases in value and Canada's competitive advantage potentially erodes. Therefore, recent growth rates in the Canadian industry may be hard to sustain since there could be external challenges from new competition, possible threats of U.S. trade action, and rising costs within Canada. ■

Jean-Louis Renaud (jerenaud@edc.ca) is a senior economist with EDC's Country Assessment Group.

Lamontagne Chocolate: Sweet Taste of Success

Photo: Doug Millar Photography

Chocolate is made from a bean. A bean is a vegetable. Therefore, chocolate is a vegetable, so none of us have to feel guilty about eating it!

BY **MAXIME CHARBONNEAU** AND **JANE DALY**

oking aside, there is something so enchanting about chocolate that we seem to view it as more than just a treat – perhaps even as one of life's necessities. Some countries include chocolate bars in army rations, and chocolate has been taken into space as part of the diet of U.S. astronauts.

And thanks to Lamontagne Chocolate Inc., we can even feel good about giving into our indulgence. Established in 1980 in Sherbrooke, Quebec, by Richard Lamontagne (president), this company specializes in chocolate that not-for-profit organizations can sell in fundraising campaigns. The company is known not only for the quality and originality of its products, but also for the valuable advice it provides to customers to help them run successful fundraisers.

"Chocolate has been a successful fundraiser for almost 40 years," says Richard Laliberté, vice-president. "It's the only product that has proven to be most effective and lucrative since the inception of fundraising activities. In recent years, an unbelievable number of other products have been tested and none have been very successful."

Lamontagne Chocolate is also one of only a few companies in Canada that has a certified nut-free facility. It also has a nut-free product line for fundraising.

Getting a taste for exports

With a firm foothold throughout Canada since 1996, the company considered venturing into the American market in 1998. "A few market studies indicated the enormous potential of the American market – as well as the risks, which were such that we truly hesitated to jump in," says Laliberté. "Then our accounting firm told us about EDC and the possibility of insuring our accounts receivable. That was the missing piece of the puzzle."

"Without EDC insurance, Lamontagne Chocolates would never have crossed the American border," confirms Lamontagne. "EDC monitors our customers and keeps us advised of their situation, providing an indispensable service."

Success has been remarkably sweet. Phenomenal increases in sales and penetration into new markets are just a few indicators that Lamontagne's exporting venture is proving to be rich in lucrative opportunities. The company expects that U.S. exports will represent more than 50 per cent of their total production in just a few years.

Even the company's French-Canadian name has proven to be an asset. "We have established very good relations with our American customers, but when they call us, they are unable to pronounce our names correctly," says Laliberté.

"So they jokingly refer to us as R1 and R2, for Richard Lamontagne and Richard Laliberté. They even suggested that we keep the name Lamontagne as the trademark, as it has a European flavour that they love."

With nut-free products, a trademark with a European flavour, and above all, excellent business relations, Lamontagne Chocolate now has all the ingredients it needs to succeed and to distinguish itself in the U.S. market. So the next time someone knocks on your door selling chocolate for a fundraiser, go ahead and indulge. After all, it's for a good cause! ■

COMPANY PROFILE

Business: Production and sale of chocolate for fundraising campaigns
Location: Sherbrooke
Established: 1980
Employees: 110 – 70 at head office and 40 sales representatives
Export Markets: United States
Contact: www.lamontagne.ca

Montreal hosting world-class SIAL

The 2003 Montreal edition of the International Food, Beverage, Wine and Spirits Exhibition (SIAL) will take place at the Palais des Congrès de Montréal, Montreal, Quebec, from April 2 to 4, 2003. This world-class trade show is organized by the Exposium Group, the Quebec Agri-Food Export Club and the Quebec Food Retailers' Association. It will feature 800 exhibitors from 30 countries including Encore Gourmet Food Corporation and many other food service exporters. 15,000 visitors from 40 countries are expected during this three-day show. Visit www.sialmontreal.com for more information.

HOW OUR EXPERTS SEE IT

Food and Beverage Sector

BY **COLIN SUYS** AND **ESSYA FERJANI**

Export outlook

▸ Demand for prepared food products is forecast to recover during 2003 following declining exports in 2001-2002. Much of the growth in the global food market is a result of increased value-added inputs rather than volume. Products destined for the food-service sector is one of the faster growing segments in the food market, accounting for about one-third of global food sales which totalled US$4 trillion in 2000.

▸ While developed countries account for most of the value-added food products moving through global retail outlets, market growth has generally been faster in developing countries, where oils and fats, dried food and dairy products have sizable retail markets with strong growth trends.

▸ Accounting for more than three-quarters of total global food consumers, developing countries also register higher rates of population growth and younger populations, signalling faster growths in future food demand.

▸ Prepared foods and beverages including french fries, fruit juices, salted snacks, candy, liquor, beer, frozen entrees and other value-added goods have been particularly successful in penetrating the U.S. market and are now making inroads in Asia and Europe.

▸ The U.S., however, remains our biggest export market, accounting for three-quarters of Canada's export sales, followed by Japan, the European Economic Community, and Mexico, which surpassed Hong Kong as our fourth largest export market in 2001.

Opportunities

▸ Taste continues to be seen as the number one driving force behind any product purchase, while fat content and calorie concerns are losing out to specific health benefits. Nevertheless, the "low" and "light" food and drinks market continues to represent an important growth opportunity for the value-added industry.

▸ As North Americans become more cosmopolitan, ethnic foods are proving popular with the mainstream market. Companies are capturing the ethnic market in a number of ways:
i) by acquiring existing companies (foreign or domestic) which specialize in ethnic products; and
ii) by relying on marketing techniques such as printing packages in the language of the target market.

▸ If food and beverage makers ignore ethnic consumers in North America and elsewhere, foreign exporters have proven to be all too willing to fill the void.

▸ Other popular trends spotted at the latest 2002 Paris edition of the International Food, Beverage, Wine and Spirits Exhibition (SIAL) were product sophistication (in the manufacturing process, the choice of ingredients, the colours, the textures) as well as a continued infatuation for old-fashioned products. It was also observed that processors have not forgotten the speed factor, as more microwaveable products were introduced.

continued on page 19

Encore Gourmet: Manufacturing the Spices of Life

BY **TRISH EDWARDS**

When big box stores like Wal-Mart, which bypass wholesalers and go straight to the source, began penetrating the Canadian market a decade ago, Encore Gourmet Food Corp. president Mark Goldman, and his partner Manouch Ilkhani faced a crisis. Their own three-year-old wholesale business was selling products supplied by private packagers to the booming dollar-store industry, and they knew they had to get into manufacturing or be squeezed right out of the picture. Spices fit the bill.

"EDC also has representatives all over the world who are able to provide us with market insight and knowledge."

"That's our claim to fame," declares Goldman. "We focused on finding something that makes a good solid core business. Use of spices isn't seasonal; it's something people do every single day. Spices aren't perishable, and they're affordable. And it's a commodity that's readily available. So we decided to retail spice. For a dollar! The exact same stuff, in fact, that's in the grocery bottle that sells for $5."

The spice business exploded, and Encore Gourmet added soups, seasonings, sauces and ramen noodles – the instant oriental noodles that are the base for its increasingly popular national brand, "5-Minutes-Express" – to the pot, so to speak.

Today, Encore Gourmet is one of North America's leading retail food manufacturing companies. Its products are sold through an expanding network of major wholesalers and retailers such as Walgreen's, Dollar General, Giant Tiger, Wal-Mart, IGA, Sobey's, Jean Coutu, Dollarama and Safeway. And the business, which has seen a 30 per cent growth in sales in this fiscal period alone, is still growing.

More than 80 per cent of Encore Gourmet's products are exported worldwide, and opportunities seem ripe for growth to continue. Goldman maintains his company's relationship with EDC has been of enormous benefit in this respect.

"We use Accounts Receivable Insurance, and that helps me sleep at night," says Goldman. "EDC also has representatives all over the world who are able to provide us with market insight and knowledge. We'd have to hire at least a vice-president of credit to do all of that, so it's saving us time and money as well."

So what does Goldman attribute the company's success to? "Good business ethics. Give people a good product, at a good price, and they'll stay with you. At Encore Gourmet, we follow our own advice religiously," he says.

That philosophy is reflected in the company's relationship with its employees. "There's no hierarchy here," says Goldman. "We're a family, a team. We work with each other." Indeed, in the early days, when employees numbered a grand total of three, Goldman and Ilkhani were working all hours, driving forklifts and repairing machinery themselves. Even today, when something needs to be done, the two roll up their sleeves. "Some employees don't even know what exactly I do," laughs Goldman.

Encore Gourmet believes in giving back to the community, too. The company supplies the kitchens of the West Island Palliative Care Service in Montreal, a community-based residence for patients in the terminal stage of illness, with its own food products. It was involved recently in a program to provide work for intellectually handicapped people. Plus, its employees constantly raise money and donate food to charity – the West Island Community Share and other area organizations are the beneficiaries of that goodwill.

"It's about honouring your connections," says Goldman, "your connections with your employees, your neighbours, and your customers." ■

COMPANY PROFILE

Business: Retail food manufacturing of instant oriental noodles (ramen noodles), spices and seasonings

Locations: Baie d'Urfé, Mossbank

Established: 1992

Employees: 450

Exports: 80 per cent

Export Markets: United States, Mexico, Puerto Rico, Iceland and some Caribbean islands

Contact: www.encoregourmet.com

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Key issues to watch

- Upcoming federal food labelling regulations are expected to have huge implications for Canada's food industry.
- The traditional food and drink retail sector is changing rapidly, impacted by key trends such as globalization, consolidation, convenience retailing and format development. Similarly, changing consumer behaviour is affecting the nature of retailing and the types of products that consumers are buying. These issues are polarizing the retail landscape, pressurizing those retailers that are not differentiated from the competition or cannot offer a 'one-stop shop' solution. ■

Colin Suys (csuys@edc.ca) and Essya Ferjani (eferjani@edc.ca) are underwriters with EDC's Agri-Food Team.

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Dessau-Soprin: Delivering the Full Package

Photo courtesy of Dessau-Soprin

By **MICHAEL TOOPE**

Bridges, road systems, hydro projects, buildings and more, Dessau-Soprin has designed and built them on every continent. Exports make up 20 per cent of its annual sales of $120 million, and Dessau-Soprin has engineered a unique market position in the developing world.

Exporting is a natural outgrowth of Dessau-Soprin's history. Work on Quebec's infrastructure renewal projects, mainly in transportation and hydro-electricity throughout the 1960s and 1970s, left Dessau-Soprin with an extraordinary wealth of engineering talent and experience. In order to maintain this expertise, they looked overseas for new challenges for their team.

In the early 1970s, CIDA and the World Bank led them to infrastructure development projects in developing countries in Africa. Dessau-Soprin's first international success was with the design of more than 700 kilometres of a national road system in Zaire, now the Democratic Republic of Congo.

The road to export success in developing countries can be bumpy at times. "It takes patience, good listening skills and a sincere effort to build relationships of trust with your clients," says Jean-Pierre Sauriol, president and CEO of Dessau-Soprin.

Project approvals can take longer in developing countries because decision-making power often rests at a much higher level in the bureaucracy. And when governments change, a wholesale change in personnel throughout the bureaucracy often follows. Loss of continuity in the relationship with a client during the lifetime of a project demands patience and understanding. Throw in cultural and language differences and challenging economic circumstances, and you have enough of a fear factor to turn many exporters away.

So what is Dessau-Soprin's edge?

"It's the full package we bring to our clients," says Sauriol. "Full package" means Dessau-Soprin can take on every phase of a project, including research, engineering services, procurement of equipment and goods, construction management, full execution of the project, and project financing. "It's much easier for our clients to deal with one entity rather than with several companies pulled together temporarily in a joint venture," confirms Sauriol.

Dessau-Soprin believes success follows when the client's objectives and constraints are included in the planning process. A contract with a new government in the Dominican Republic proves

the point. The government had to move quickly on a promise to provide electricity to some rural areas. Sensitive to this pressing need, Dessau-Soprin quickly offered a comprehensive proposal for the project, including financing from EDC.

EDC services are an essential part of Dessau-Soprin's full package, especially in its work in developing countries.

Dessau-Soprin's innovative proposal had mini hydro-electricity power plants built upon an existing irrigation system, shortening the delivery schedule, and minimizing cost and environmental impact. By diverting water from the irrigation system into electricity-generating hydro canals, rural communities gained power for the first time. The proposal was a perfect fit with the client's needs, and the project execution began within a year.

EDC services are an essential part of Dessau-Soprin's full package, especially in its work in developing countries. "They face tougher financial constraints than the rest of the world," notes Jean-Pierre Sauriol. "Often they cannot proceed with large projects without credit services such as those provided by EDC."

With the "full package" of expertise in-house, and decades of successful projects behind them, the Dessau-Soprin team is primed to grow exports to 50 per cent of its business. ■

COMPANY PROFILE

Business: Engineering and construction services
Location: Laval
Established: 1957
Employees: 1,250
Exports: 20 per cent
Export Markets: Global, with emphasis on the Caribbean, northern part of South America, North Africa and China
Contact: www.dessausoprin.com

Construction and Engineering Services

BY **JEAN-LOUIS RENAUD**

Export outlook

▸ Exports of architecture, engineering and other technical services are expected to continue their recovery from the large downturn suffered in 1999 when this sector's exports fell by 25 per cent. The sector has since experienced a noticeable recovery with export growth of four per cent and 3.5 per cent in 2000 and 2001 respectively. The sector, which covers engineering and technical products (focused largely on infrastructure and resource projects) has not performed well in recent years against well-organized foreign rivals. But the growing world recovery should bolster demand for these services as companies proceed with projects that were postponed or delayed, combined with the enhanced competitiveness of Canadian firms due to the low Canadian dollar – at least vis-à-vis the U.S. dollar.

▸ Construction service exports, accounting for less than one per cent of total services, fell by seven per cent in 2001, despite the North American boom in real estate. This could be a partial consequence of the parallel boom in Canadian housing construction, resulting in service providers remaining at home rather than contracting their services abroad. However, commercial and infrastructure spending was fairly sluggish south of the border last year. Given the high vacancy rates in the U.S. commercial and office sector, as well as pressure on the state budgets (which reduces infrastructure spending) exports from this sector are expected to remain sluggish, rising by one per cent this year.

Opportunities

▸ Companies that have been successful domestically with design/build projects and public/private partnerships will be in a much better position to win international projects.

▸ Tremendous opportunities now exist to design and build environmentally sound infrastructure and other projects from the ground up. Newly wealthy and developing countries are facing a substantial pollution load due to a combination of old polluting industries and inadequate infrastructure.

▸ Consulting Engineers of Canada have identified the U.S. as the region with the most opportunities for new business followed by Latin America, Southeast Asia, Eastern Europe and the Middle East.

Key issues to watch

▸ The exporting efforts of the Canadian construction industry are being hindered by their limited experience in projects developed as public/private partnerships. This is increasingly used in international markets as a vehicle for delivering projects. Domestic experience in this area is critical to success.

▸ Despite the progress that has been made on the agreement in International Trade, the North American Free Trade Agreement and the General Agreement on Trade on Services, market entry is still often impeded by local regulations, technical requirements, product standards and a discriminatory approval process.

▸ Consulting engineers need to strengthen their capabilities in areas such as advanced manufacturing, technologies, geomatics, systems integration and environmental technologies in order to offer new consulting services in market growth areas.

▸ Globally, Canadian engineering companies compete with large, integrated full service firms or consortiums. Canadian engineers need to strengthen their links to contractors, manufacturers, equipment suppliers and, in some cases, financial institutions and government agencies to generate the critical mass required to win more profitable integrated projects. ■

Jean-Louis Renaud (jerenaud@edc.ca) is a senior economist with EDC's Country Assessment Group.

Germany: Great Expectations

BY **PETER BRAKE** AND **CLAUDIA VERNO**

When you think of Germany, you probably think of beer steins, romantic castles on the Rhine and gleaming luxury cars speeding on the expansive autobahn. Germany has all that and much more. A densely populated nation of 83 million people set in the heart of Europe, Germany has the third largest economy in the world and the largest economy in the European Union (EU). It is Canada's fifth-largest export market, with more than $2.7 billion in 2001.

Germany has been a leader in the development of the EU and a key to the organization's integration of financial, social and political standards. For Canadian firms considering expanding their operations in Europe, Germany offers an excellent central location from which to access much of the European market. However, the highly developed nature of the German economy and the advantages given to other EU countries in trade with Germany means that Canadian exporters must be prepared to be innovative and imaginative in order to market the quality and value of their products.

The slow German economic recovery from the global crisis of 2001 has been largely blamed on the structural rigidities of Germany's social and economic system. Despite German productivity being amongst the best in the world, wages are very high and there are serious constraints on labour mobility. Inflexible regulatory systems are impediments to foreign direct investment in Germany. Nevertheless, all the factors that made Germany a leading European economic engine remain in evidence; infrastructure and education are amongst the highest in the world; monetary policy, while now set by the European Central Bank, remains focused on price stability; and the economy has a healthy mix of huge corporations and small- and medium-sized manufacturing enterprises.

Over the years, Canada has been able to expand its Germany-bound exports to include more value-added finished goods. Major Canadian products sold to Germany in 2002 included aircraft and aircraft parts, pulp, iron ores, coal, lumber, optical devices and instruments, newsprint, medical parts, and industrial machinery. Raw and processed materials and semi-manufactured products amounted to less than half of total exports.

Strong growth potential for Canadians

Increasing exports of Canadian finished goods indicates that Germany is becoming more aware of the quality and diversity of Canadian products. Strong prospects for continued growth for Canadian exporters have been identified in the following sectors: information technology, communications and multimedia, aerospace, residential housing, agriculture and agri-food, cultural industries, industrial machinery and health industries. Opportunities also exist for new cooperation and strategic alliances in the areas of scientific research and development.

Foreign investment is welcome but special licenses are required for businesses in the banking, insurance, pharmaceutical, military equipment and passenger transport sectors. German subsidiaries of Canadian companies are active in the food and beverage, aluminium refining, mechanical engineering, telecommunications and auto parts industries.

Key export opportunities

...information technology, communications, aerospace, residential housing, industrial machinery and health industries...

Investment incentives have been established to encourage the development of a 'Mittelstand' (small enterprise) economic structure in the east comparable to that in the west. Companies setting up a permanent establishment in the east may deduct its value in determining the taxable base for capital taxes. In addition, individual municipalities often offer low utility rates, cheap land and transportation links to attract new businesses. Foreign businesses that operate through a permanent subsidiary or representative are taxed at a flat rate of 45 per cent, whether profits are repatriated or not.

A major challenge when exporting to Germany are the notoriously high trade quality standards. All imported products must meet German and EU standards and regulations, including approval and testing. Canadian domestic standards authorities can provide assistance in meeting German requirements.

Germany's business etiquette

Germany's business conduct is European in nature with more formality and hierarchical awareness than in North America. Exporters are advised to establish initial contacts through a formal letter with concise information about their company and its objectives. A follow up phone call should be made to ensure the letter was well received. While English is commonly used in business dealings, it is beneficial to have German-language capabilities through an interpreter or representative.

Exporters should note that a marketing strategy should include attendance at German trade fairs which are extremely popular venues in Germany for introducing new products and technologies and for conducting business. Canadian manufacturers may also consider exhibiting at international fairs such as NPE (Chicago) and Interplast (United Kingdom), which are frequently attended by many German importers.

The German market is sophisticated, demanding and focused on quality and state-of-the-art technology. Competition is intense but Canadian exporters have made great strides in recent years in penetrating the market with value-added goods. Further success will come to the exporter who can satisfy German high standards and who adopts an innovative strategy to market products to best advantage. ■

Peter Brake, LLB (peterbrake@rogers.com), is an Ottawa-based freelance writer. Claudia Verno (cverno@edc.ca) is an economist with EDC's Market and Economic Analysis Division.

How our analysts see it

BY **CLAUDIA VERNO** AND **FERGAL O'REILLY**

Political overview

▸ German Chancellor Gerhard Schroeder's Social Democratic Party managed to form another coalition with the Green party to remain in power in the wake of the September 2002 Bundestag elections. The strong performance of the Christian Democrats is a major blow to Schroeder's government and will embolden the opposition in the forthcoming legislative session.

▸ The government will continue to be dogged by the country's poor economic performance and Schroeder will once again be preoccupied with economic issues. The creation of a so-called "super-ministry" to unite the economy and labour ministry is seen as an effort to coordinate the handling of these key potential crisis areas.

▸ The relatively powerful position of the Greens in the new coalition will impede government efforts to cut spending and taxes.

Economic situation

▸ Germany, which accounts for about one-third of the Euro-Zone economy, continues to drag down Euroland's overall performance. Indicators such as the November IFO (Institut fuer Wirtschaftsforschung, Institute for Economic Research) and the ZEW (Zentrum fuer Europaeische Wirtschafsforschung, European Centre for Economic Research) surveys, consistently point to deteriorating sentiment in Europe's largest economy.

▸ Having renounced the use of its fiscal levers (Chancellor Gerhard Schroeder reneged on the tax cuts he had promised during the elections), Germany now has both hands tied, since it cannot expect much help from the European Central Bank (ECB) as long as the ECB maintains its current conservative monetary policy. With no economic stimulus in sight, it isn't surprising German businesses feel downbeat and remain prudent when it comes to hiring new workers, increasing orders or expanding production. Any relief will likely have to come from the outside via improving global conditions that would provide a boost to German exports.

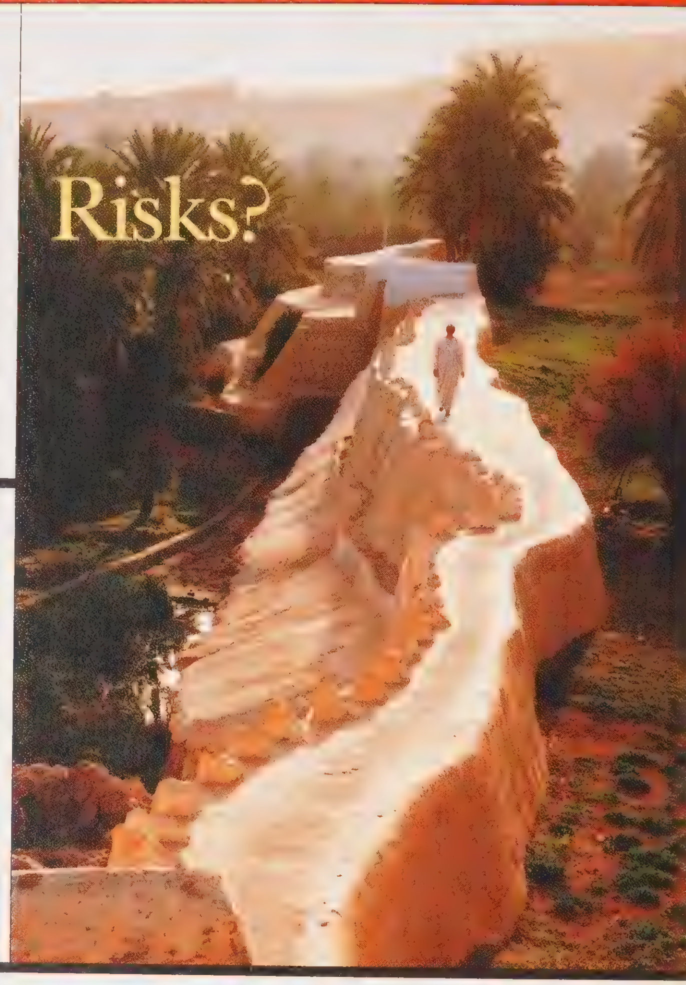
▸ The Eurozone as a whole will not be able to display stronger growth until German activity picks up.

Key issues to watch

▸ Germany will flirt with recession and risk dragging down Eurozone growth along with it unless the Growth and Stability Pact, which limits the budget deficit to three per cent of GDP, is breached or modified, or the ECB changes its monetary policy stance by continuing to cut rates. Ironically, Germany was amongst the Pact's strongest supporters, because it worried that some country members would continue running lax fiscal policies, thus endangering the stability of the Euro. ■

Claudia Verno (cverno@edc.ca) is an economist with EDC's Market and Economic Analysis Division and Fergal O'Reilly (fo'reilly@edc.ca) is a senior political risk analyst with EDC's Political Risk Group.

Algeria: Worth the Risks?



BY **PETER BRAKE** AND **IHAB TADROS**

Algeria, a predominantly Muslim oil producing nation of 31 million, is situated in Northern Africa bordering the Mediterranean. Together with Morocco, Tunisia, Mauritania and Libya, Algeria is one of the Maghreb (an Arabic term meaning 'West') group of Northern African countries regarded as an extension of the Middle East.

Algeria has the third-largest economy in Africa and is Canada's leading trade partner in Africa and the Middle East. Total trade in 2001 exceeded $1.4 billion. Algeria is also ranked as one of the global top five markets for Canadian durum wheat. Its rapidly growing population will only increase the demand for Canadian agricultural products and services.

The country's economic development is dominated by the oil and gas sector which provides 95 per cent of Algerian exports. GDP growth, steady but moderate over the last decade, is expected to rebound sharply in 2003 to 4.8 per cent. This is prompted by the recent firming of global energy prices and increased government spending on development and infrastructure.

Privatization, industrial diversification and infrastructure development key

Led by Abdul Aziz Butaflika, the Algerian government has recognized that lessening the nation's vulnerability to fluctuations in world oil prices requires long term commitment to privatization, industrial diversification and infrastructure development. The country has begun to introduce free market reforms including offering the public shares in state enterprises, privatizing telecommunications and bringing investors into fixed-line and mobile phone operation systems. Since 1996, more than 1,000 state enterprises have been privatized.

Canadian exporters and investors seeking business with Algeria should focus on the oil and gas industry, agricultural products and services, power production and distribution, telecommunications, water supply and waste water treatment. Infrastructure development, such as the proposed new metro system in Algiers, also offers up potential. International tenders for joint ventures with state agencies for the construction of a seawater desalinisation plant and electric power station have also been called.

Move to modern agricultural techniques

Aside from the oil and gas industry, Algeria's agri-food sector, regarded as the source of many future jobs for its burgeoning population, is at the core of the restructuring policies enacted by its government. Converting Algeria's agri-food industry from traditional farming to modern agriculture is a sensitive and slow process. Measures have been introduced by the Algerian government but the required technical assistance and farm equipment is not readily available in Algeria. The Program of Support to Boost the Algerian Economy, introduced in 2001, is a three-year US$7.2 billion program earmarked to benefit mainly infrastructure ($2.9 billion), local development ($1.5 billion), and agriculture ($900 millions) sectors. Opportunities exist for Canadian firms to provide Algeria with the technical expertise and equipment necessary to build a modern agricultural system.

The government has made efforts to welcome foreign investment by making significant improvements in its regulations and policies. In March 2000, Algeria unveiled new rules to ease the transfer of foreign funds, allowing investors to expatriate profits under the authorization of the Central Bank. Algeria's legal system is reasonably effective and even-handed. Measures to protect intellectual property are amongst the most advanced in the region.

Exporters should note that the use of agents, distributors or joint-venture partners is a reliable means of entering the Algerian market. To make for better market penetration though, Canadian firms should build relationships directly with Algerian clients rather than relying on the services of European middlemen. Distributors expect exporters to provide advertising and promotional support, customer manuals and documentation in French and/or Arabic. After-sales service is important. Depending on the type of goods, warranties of six to 18 months are required.

Key export opportunities

...agricultural products and services, power production and distribution and waste water treatment...

Algeria's business etiquette

Arabic is the main language but French is used in business situations and Berber dialects are also common. Business etiquette reflects Algeria's Arabic nature more than its Northern African location. It is customary to dress conservatively and to shake hands when entering and leaving meetings. Meetings should be avoided during the period of Ramadan and confirmed in advance. Ample time between meetings should be scheduled in case of delays.

When visiting Algeria, be sure to pay special attention to personal security. Although foreign interests have not been targeted by militants, visitors are advised to prepare comprehensive security arrangements in advance and maintain caution in all situations, especially internal travel. Canadian exporters should pay special attention as well to their clients' financial standing. Demand that payments be made in advance or by irrevocable letter of credit.

Algeria can represent a daunting challenge to Canadian exporters who may be inhibited by structural problems and security concerns. However, the large market has a great deal to offer. The successful Canadian exporter will be the one willing to take some risks to maximize opportunity. ■

Peter Brake, LLB, (peterbrake@rogers.com) is an Ottawa-based freelance writer. Ihab Tadros (itadros@edc.ca) is EDC's regional manager, International Markets, Middle East and Africa.

EDC'S MARKET TAKE

How our analysts see it

BY **SUSANNA SOTTIMANO** AND **JOCELYNE LUSSIER**

Political overview

▸ The country's May 2002 general elections resulted in a sweeping victory for the National Liberation Front (FLN), returning the country's former sole ruling party to dominance in parliament. The elections were marred, however, by violence, boycotting and record low voter turnout.

▸ The powerful military/security elite will continue to influence policy-making in Algeria.

▸ Politically-motivated violence by militant Islamist groups continues unabated. Normally, this occurs outside the capital of Algiers, but bomb attacks in the capital in 2002 demonstrated it is not immune. The government continues to ensure the security of Algeria's hydrocarbons sector.

▸ While the government has made headway in opening up the mining, energy and electricity sectors, vested interests continue to slow the pace of economic liberalization.

Economic climate

▸ Algeria's macroeconomic fundamentals are on a much stronger footing in 2003 than a decade ago and the country is well positioned to face the global economic challenges. An acceleration in economic performance should bode well for the business climate.

▸ Oil windfalls, combined with conservative policies, have led to a strong financial position characterized by a very comfortable liquidity position and a manageable external debt.

▸ Another wave of reforms is needed to preserve hard-won gains and to attract investment. This means an acceleration of the banking sector reform and of the restructuring and privatizing of the public sector.

Key issues to watch

▸ Government actions to boost private sector activity and reduce unemployment through labour-intensive projects such as encouraging agriculture and small- and medium-sized enterprises.

▸ The manner in which the government tackles the pressing socio-economic concerns in Algeria which are the cause of significant popular disaffection with the government.

▸ Relations between the government and the country's Berber population. In response to significant Berber protest over their economic and cultural marginalization, the government has taken important steps to accommodate some of their demands, such as granting the Berber language of Tamazight official status. ■

Susanna Sottimano (ssottimano@edc.ca) is a political risk analyst with EDC's Political Risk Group and Jocelyne Lussier (jlussier@edc.ca) is a senior economist with EDC's Country Assessment Group.

Dominican Republic:

Beaches, Blue Skies and Business

BY **PETER BRAKE** AND **DAVID GOLDFIELD**

When setting out to explore new trade routes in 1492, one of the first lands Columbus encountered was the Caribbean island of Hispaniola. Today, it is the Dominican Republic that claims the eastern two-thirds of the island with Haiti occuping the west. Following in the spirit of Columbus, many Canadian exporters in search of trade are also discovering the Dominican Republic. That's not surprising. In the last seven years, the country has experienced a mini-renaissance. A stable democracy has been established and annual GDP growth has been averaging 7.2 per cent in recent years.The Dominican Republic, with a population of 8.3 million, is now the largest democratic and free-market economy in the Caribbean.

The country's robust economic performance is largely due to a process of political and financial reforms that are still ongoing. Reforms have stimulated investment in the tourism, construction, communications and agriculture sectors. Although the country has long been viewed as an exporter of sugar, coffee, and tobacco, in recent years the service sector, primarily tourism, has surpassed agriculture as the economy's largest employer. The number of Canadian tourists alone has been increasing rapidly, from 170,000 visitors in 1999 to more than 300,000 in 2002.

Trade between Canada and the Dominican Republic is significant and growing steadily. Canadian direct exports average $103 million annually and are comprised mostly of paper products, fish, cereals, vegetables, automobile parts and electrical equipment. In addition, significant Canadian exports destined for the Dominican Republic are transhipped through the United States.

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How our analysts see it

BY **DOMINIQUE BERGEVIN** AND **ALAIN BOURDAGES**

Political overview

▸ Since the early 1980s, the Dominican Republic has been practicing democracy. President Hipolito Mejia of the Dominican Revolutionary Party (PRD) was elected in May 2000 with a policy platform comprised of a mix of neo-liberal and populist ideologies.

▸ For the past two decades, the executive power has been shared between the country's three main political parties which share similar centrist ideologies. Despite Mejia's populist inclination, he has prioritized economic stability over social spending, increasing his popularity internationally, however, negatively impacting his domestic support.

▸ Despite these unpopular policy choices, the ruling party was successful in keeping a hold of its majority in both legislative bodies (Senate and Chamber of Deputies) in the May 2002 congressional elections, giving the government the ability to pass his desired reforms.

▸ Since the power privatization efforts undertaken by former President Antonio Fernandez (1996-2000), the government has outstanding debts with the power utilities. Subsequently, frequent blackouts occur, sparking social unrest and damaging the country's economy. In an attempt to resolve the issue, the government came to an agreement with the power companies resulting in higher consumer prices and the elimination of state subsidies.

▸ Political violence against foreigners is not a significant worry at this time. This said, social disorder stemming from popular discontent with government decisions does occur and is expected to continue in the short term. The main threat of political violence is the possibility of spillover from the problems in neighbouring Haiti (both countries share the Hispaniola Island).

Economic climate

The economy of the Dominican Republic, although enjoying a vastly developed tourism industry, is far less dependent on foreign visitors than commonly believed. Indeed, agriculture and manufacturing both represent a larger share of the economy. Domestic activity has been very strong since the latter part of the last decade, averaging 6.4 per cent real GDP growth since 1996. The public sector has participated actively in that strong rate of economic activity, supporting the construction and services sectors through large infrastructure investments, which have created opportunities for business. Free trade zones play host to a significant textile manufacturing sector, which produces the bulk of the country's goods destined for export, and represents an attractive opportunity for investment. The country also offers much potential in mining and manufacturing.

Key issues to watch

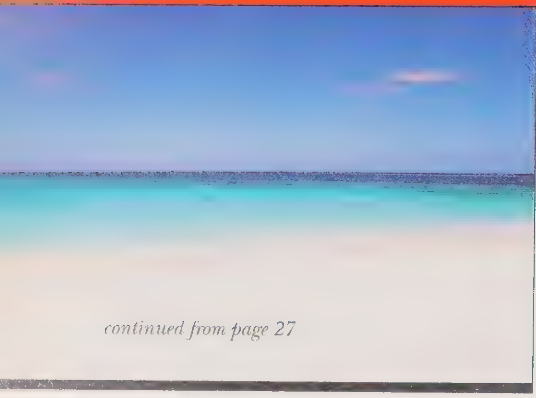
▸ The government needs to attain a fine balance between resolving the current blackout problems and attracting further private investment in power while keeping its citizens content.

▸ The government needs to focus on strengthening the country's immigration policy in order to deal with the potential for political violence spillover from Haiti.

▸ Campaigning for next year's presidential elections is forthcoming.

▸ The rising level of government debt has led to sharp domestic criticism of the public sector's economic policy management. As a result, the country's financial aggregates have shown significant volatility since 2002. ■

Dominique Bergevin (dbergevin@edc.ca) is a political risk analyst with EDC's Political Risk Assessment Group and Alain Bourdages (abourdages@edc.ca) is an economist with EDC's Country Assessment Group.



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Exporters should expect to face heavy competition from businesses and organizations based in the U.S., Germany and Spain, which have pre-established trade and bi-lateral aid relationships.

Designated free trade zones

Canada is one of the largest foreign investors in the Dominican Republic. As much as US$1.2 billion has been provided to sectors such as telecommunications, mining, banking and tourism. The country's legal environment is open and foreign investors can participate in most areas of the economy with some exceptions in the fields of defence and national security, environment and hazardous waste disposal. Designated free trade zones grant industries complete exemptions from all taxes and fiscal charges for as long as 15 years. Negotiations with Canada have also begun on a Foreign Investment Protection Agreement.

The country's mines produce ferro-nickel, gold and silver. There has been extensive exploration of other potential deposits since the early 1990s but, although additional gold and silver deposits have been located, the hoped-for commercial oil discovery has failed to materialize. Canadian exporters should look to opportunities in the Dominican Republic's mining industry as the country seeks to upgrade equipment and address heightened environmental awareness and standards.

Under the Fernandez government, which took office in 1996, the economy has grown quite strongly through the use of public works contracts. Substantial foreign aid, principally from the U.S. and the Inter-American Development Bank, is being used to improve the country's infrastructure.

The labour supply is ample and although largely unskilled, workers are competent and trainable. Opportunities exist for expanded education and training services.

Electrical generation and distribution opportunities

One of the principle areas of Canadian export opportunity is electrical generation and distribution. The Dominican Republic is severely lacking in efficient power generation. Equipment and technology, including turbines, generators, transformers and control equipment are needed to address the nation's energy demands. In addition, consulting firms and companies with experience in the commercial economics of energy production, transmission and distribution will be welcome.

Key Export Opportunities

...electrical generation and distribution, water and waste management, landfill and site remediation...

The influx of visitors, rapid hotel and resort development and the devastation to the island as a result of Hurricane George, have spurned an increased awareness of the ecosystem and the need for sustainable development. Water and waste-management, landfill, recycling and site remediation are all areas of concern. New projects that may have an environmental impact, including industrial and infrastructure development, are now subject to environmental impact assessments or audits. Opportunities exist for Canadians to provide know-how and technological evaluations and solutions through local partnering and technology-sharing.

Exporters should expect to face heavy competition from businesses and organizations based in the U.S., Germany and Spain, which have pre-established trade and bi-lateral aid relationships. Surmounting this competition calls for innovative, cost-effective solutions. It is important to know that all imports into the Dominican Republic, outside of free trade zones, require a consular invoice from a Dominican overseas consulate.

Dominican Republic business etiquette

Business in the Dominican Republic is conducted with a mixture of European manners and Caribbean hospitality. It is usual for business people to dress smartly and to deal formally with each other at first, although the general atmosphere is relaxed. Spanish is the main business language and a familiarity with it is beneficial.

Beaches, blue skies and business. Canadian exporters seeking new trade destinations should take a cue from Columbus and set out to discover the Dominican Republic. ■

Peter Brake, LLB, (peterbrake@rogers.com) is an Ottawa-based freelance writer. David Goldfield (dgoldfield@edc.ca) is EDC's regional manager, International Markets, for Andean and Caribbean.

Brazil in the Eyes of the Americas

BY **J. CLAUDIO ESCOBAR**

Two weeks after the new government assumed power, the Brazilian Real (R$) appreciated in value versus the U.S. dollar, rising from earlier levels of R$3.28/US$ to R$3.50/US$ at the close of January 13th. The perception of Brazilian risk also improved, demonstrating investor optimism in the country's ability to honor its commitments. Adding to the regained optimism, the financial community reinforced its positive expectations, including a recent release by Merrill Lynch announcing that Brazil is the preferred country to receive new investments in Latin America. It's quite interesting to see how the perception of the new government's potential is pleasing the investment community. However, the appearance of concrete measures to justify the confidence and smiles is also needed.

So what has changed in Brazil? It seems that the new government team is sporting characteristics closer to those sought by corporate Brazil. This includes leadership, charisma, consistency and quick adaptation to change – a mantra heralded by leaders in continual search of performance. Sound familiar?

The new government is continuing to foster change in the macroeconomic condition of Brazil. Canadian companies looking for opportunity in this market may want to take the following into consideration:

- The Real (R$) devaluation has created excellent opportunities for Brazilian-based companies, especially those firms exporting products such as food, oil, steel, cars, and electrical household goods;
- The Agriculture sector has never been so prosperous, but it needs to improve its productivity through the introduction of new methodology and equipment.

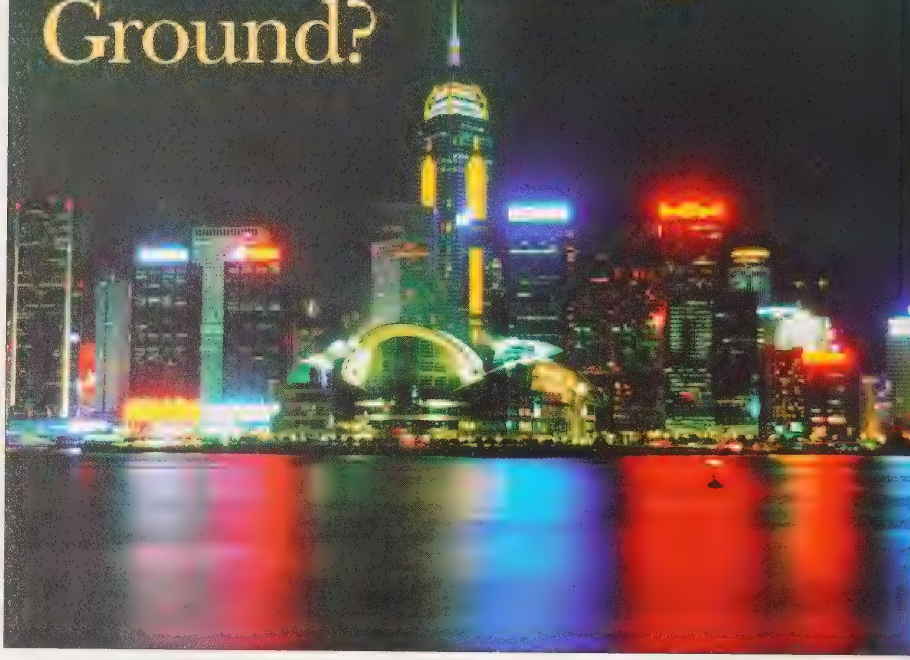
Canadian know-how needed

Brazil is aligning its objectives in order to eliminate hunger, increase exports, create employment by enhancing opportunities for SMEs and improve its logistics and quality of urban transportation. Canadian know-how seems very well suited to support these priorities.

Brazil has become more conscious of making sure that its needs are fulfilled with a good share of domestic content. A Canadian proposal that complements goods and services with partnerships, transfer of technology and investment is clearly a winning combination. The EDC team, with its permanent representative in São Paulo, supported more than $1.6 billion of Canadian exports and investment in Brazil in 2001. Last year, more than 184 Canadian companies used EDC services to facilitate in excess of $1.2 billion worth of exports and investment to Brazil. EDC is ready to continue to be a catalyst in helping both Canadian and Brazilian companies grow their trade, investment, and business relationships in Brazil – one of the largest markets in Latin America and doorstep to the Southern Cone. ■

Located in São Paulo, Brazil, J. Claudio Escobar (cescobar@edc.ca) is EDC's regional director for Brazil and Southern Cone.

China: Is Canada Losing Ground?



BY **ALISON NANKIVELL**

2002 was a lacklustre year for Canadian exports to China. But prospects should brighten in 2003 as China combines steady macro-economic management with a more sustained implementation of WTO commitments, particularly in the agricultural sector.

In a year in which Chinese purchases from the rest of the world grew 19 per cent, Canadian exports to China actually fell $130 million to $3.2 billion during January-October 2002 compared to a year earlier, says Statistics Canada. Contrast this with Malaysia's export sales to China, up 48 per cent in the first 10 months of 2002, or Taiwan (+39 per cent); Japan (+23 per cent); and Australia (+10 per cent). Even the United States and the European Union managed to grow their exports to China by 1[illegible] per cent and 6.4 per cent respectively during the first 10 months of 2002.

Is Canada losing its competitive edge or are other nations simply laying claim to their fair share of China's vast market? In part, the success many Asian countries have experienced in expanding their export sales to China underlines a broader transfer of manufacturing investment into China by these same countries, especially Japan, Taiwan and Korea. According to China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC), only 20 per cent of foreign direct investment in 2001 came from the U.S. and Europe, with the rest coming from coastal Asian countries. As Asian direct investment in China has grown, so too have intra-regional supply networks, with many Asian exports to the mainland being comprised of commodities, technology and capital equipment destined for the production facilities being constructed by Asian corporations.

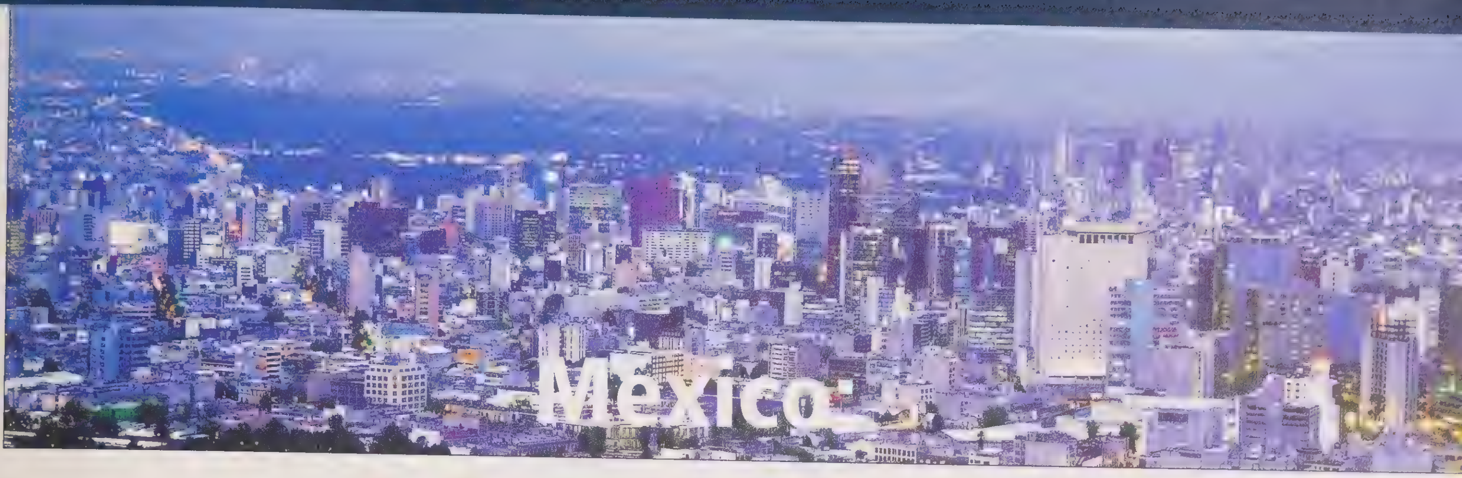
> *In a year in which Chinese purchases from the rest of the world grew 19 per cent, Canadian exports to China actually fell.*

New wave of investments

While Asian direct investment in China has been the big story in the past few years, MOFTEC anticipates a new wave of investments by European and North American companies, particularly in view of the recent decision by Beijing to let foreign companies buy into listed state-owned enterprises. The success of North American joint ventures such as Shanghai General Motors has already been a boon to Canada's auto part exports to the mainland. New China investment projects being launched by North American firms offer the opportunity for other sectors of Canada's export community to grow as well.

While a revival in world markets for agriculture, telecom and transportation should help restore Canadian exports to China back to their previous levels, it will take a stronger commitment of Canadian capital and technology to ensure we enjoy a sustained and expanding share of China's import market. ■

Located in Beijing, China, Alison Nankivell (anankivell@edc.ca) is EDC's regional director for China.



A Growing Market for Canadian Business

BY **MARVIN HOUGH** AND **NOÉ ELIZONDO**

On December 17, 2002, Canada, Mexico and the United States celebrated the 10th anniversary of the signing of the North American FreeTrade Agreement (NAFTA).

Since 1993, bilateral trade between Canada and Mexico has tripled, resulting in Mexico assuming the rank of Canada's sixth largest export destination. NAFTA has had a tremendous impact on the integration of Mexico into the North American economy, facilitating the establishment of strategic alliances between companies in the region, as well as providing the impetus for a wide range of bilateral industrial cooperation agreements. NAFTA and these agreements are important for providing the framework for trade and investment to flow smoothly, allowing Canadians to more easily take advantage of the opportunities Mexico has to offer. At a more grassroots level though, the reason behind the growing opportunity is not just a result of changes in politics. It's also a result of changes in people.

Growing demand

Mexico's current population of 100 million is projected to reach 130 million in the next 30 years. Almost all of this growth will be in major metropolitan areas, resulting in the country's urban population reaching 63 million. In 2030, there will be 20 cities with more than one million inhabitants. That's up from nine cities as of 2000.

Natural population growth plus rural-to-urban migration are contributing factors. Much of the migration stems from Mexico's rural citizens being drawn to urban areas hoping for employment opportunities and the chance for a better life. Diversification of both the manufacturing and services sectors spawned the urban expansion. Traditionally it was the northern border area of Mexico where the highest concentration of these engines of growth were located. Today, this same economic model is taking root across the country, but the scale varies and regional disparities in terms of prosperity are common.

Understanding where and why the population is changing is key when Canadian firms focus their business development efforts. This expanding population will translate into a need for housing, appliances, furniture, agri-food and consumer goods. As Mexico's affluence rises, first around these city centres, so will its consumption.

The country's infrastructure will also need to accommodate the growth. Municipal and central governments are going to have to find ways to manage this change strategically and on a cost effective basis. Innovation and careful planning is needed. Canada's expertise in the automotive, telecommunications, energy, transportation, mining, environmental and construction sectors all have the potential to lend a hand.

And one mustn't forget public services such as education, health care, tourism and recreation. In the end, it's all about people. Canadian businesses wishing to conduct business with Mexico need to have a good understanding of its people, its cultural and its changing lifestyles. Knowing these aspects of doing business in Mexico can help you succeed against the competition. ■

Located in Mexico City, Marvin Hough (mhough@edc.ca) is EDC's regional director for Mexico and Central America. Located in Monterrey, Noé Elizondo (nelizondo@edc.ca) is EDC's regional manager for Monterrey, Mexico.

PUTTING TOGETHER THE EXPORT PUZZLE (PART TWO)

FINANCING YOUR EXPORTS

Everything's going well. You're learning a lot about the export market and you see plenty of opportunities abroad. But you also know that you face some major financial issues along the export road. Fortunately, several resources exist for managing those issues, and in this article we'll explore them.

BY **DENNIS** AND **SANDI JONES**

Cashing in on domestic success

Because it may take more time than you expect for your export project to turn a profit, you must begin with two essentials: domestic financial stability and a reliable domestic cash flow. Controlling export-related spending is also crucial, which requires a sound financial plan. For help in creating one, go to the Interactive Export Planner offered by Team Canada Inc (TCI) at

Address: exportsource.ca/iep

After registering, you can either work through the Planner till you reach the financial section, or access the blank financial tables referenced at the bottom of the Administrative Details page.

ExportSource also has TCI's A Step-by-Step Guide to Exporting, which includes a section on financing; you'll find this at

Address: exportsource.ca/stepbystep

Another TCI offering is the Export Service Continuum at

Address: exportsource.ca/continuum

offering relevant links under its Export Financing heading. Or, for more personalized planning assistance, call Team Canada Inc's Export Information Service at 1-888-811-1119.

Finally, check the Forum for International Trade Training at

Address: www.fitt.ca

which has a course called "International Trade Finance." It's a good introduction to export financing and covers everything from exchange rates to payment methods.

Succeeding all too well

You've landed your first export deal. It was much bigger than you'd dared hope for, and you're delighted. But now, too late, you discover that you can't get enough working capital to increase production, so you can't meet the orders. Ironically, your success has hurt both your bottom line and your reputation.

But you can prepare for such unexpected bonanzas with the assistance of the Business Development Bank of Canada (BDC). It can help you meet your working capital needs through long-term financing and flexible repayment options. You can call a representative at 1-877-232-2269 or visit them at

Address: www.bdc.ca

Click the Financing link for a list of resources, then choose the Exporting link and go from there.

Export Development Canada (EDC) can help you with Pre-shipment Financing, designed to provide the financial capacity to complete a contract. It also offers the Master Accounts Receivable Guarantee (MARG), which helps smaller exporters get additional operating financing through EDC guarantees based on their foreign accounts receivable. To find out more, go to

Address: www.edc.ca/prodserv/smallbus/index_e.htm

You may find other useful leads through the Canadian Commercial Corporation (CCC), an export contracting agency established by the Canadian government. The CCC offers the Progress Payment Program (PPP), which can provide financial resources for your export contract through commercial lenders. For more information, visit

Address: www.ccc.ca/eng/ser_cdn_exp.cfm

and scroll down to the PPP section.

This is the second in a four-part series.
Look for part three "Exploring Market Opportunities" in the Summer 2003 issue of *ExportWise*.

TCI's ExportSource site at exportsource.ca is another place to investigate. It has links to international, federal and provincial bodies that offer financial information and assistance to both new and experienced exporters.

We'd love to do business, but...

The deal's as good as made – except that your foreign customer lacks the financial resources to close it. Or he has the money, but wants a contract bond before he'll sign, and you're uncomfortable with the risk.

Are these deal-killers? Not necessarily. For financing, EDC can provide direct loans to foreign purchasers of Canadian capital goods so they can buy your product. Alternatively, EDC can arrange such financing through lines of credit or promissory note purchases, as described at

Address: www.edc.ca/Prodserv/SmallBus/loans_e.htm

Similar resources for foreign buyers may be available through EDC's partner, Northstar Trade Finance Inc., at

Address: www.northstar.ca

As for bonding, EDC can provide a Performance Security Guarantee that will help you obtain surety bonds or Bank Letters of Guarantee, and can also insure you against the risk of wrongful calls. You'll find precise information at

Address: www.edc.ca/prodserv/insurance/bonding_e.htm

The cheque isn't in the mail

You've exhausted your credit line to finance an export sale. You're not worried, though, because your customer will make progress payments that will keep you in the black. But what if he defaults? Is your business doomed?

You'll survive such a disaster if you've put EDC's Accounts Receivable Insurance in place. It covers up to 90 percent of the value of a sale when the customer doesn't pay. The page at

Address: www.edc.ca/Prodserv/SmallBus/insurance_e.htm

gives more information, or you can call 1-866-283-2957 for expert advice. And if political factors may result in non-payment, EDC provides Political Risk Insurance as outlined at

Address: www.edc.ca/prodserv/insurance/risk_pol_e.htm

Expanding your horizons

Once your first export project is off the ground, it's a good idea to investigate further opportunities. For one thing, having several customers makes you less vulnerable if one of them gets into trouble – and anyway, why not look for new successes? There are plenty of ways to do that, and in our next article we'll tell you about them.

Knowledge Without Borders

Photo courtesy of Photo Features

BY **BONITA WILLIAMS**

For a few years now, globalization has been all the rage. It's *the* word used to describe the tidal wave of change, opportunity and challenge facing today's society. Some equate it with commercialization and environmental degradation. Others consider it the only path to prosperity and perhaps the only feasible solution to poverty.

For Canada, globalization has opened up exciting new trade and investment opportunities and fuelled solid growth. Over the last two years, Canada's resilience in the face of a global economic downturn has prompted some polite Canadian boasting about the rewards of fiscal responsibility and investing in knowledge-based industries. It has also reinforced the notion that knowledge is the key to building global competitiveness.

Against this backdrop, it's not surprising that many of Canada's finest schools are emphasizing international content in their curriculum, and forging partnerships with the business community to help prepare Canada's next generation of business leaders.

From the beautiful peaks of British Columbia...

Simon Fraser University launched a new Global Asset and Wealth Management MBA program in Fall 2002 that is a departure from traditional finance-oriented MBAs. "As more Canadians become interested in investing globally, they will need sophisticated financial practitioners," says Margaret Vandenberg, associate director of development at SFU Business. "This program will create financial advisors who understand the client's investment needs and have the skills to invest wisely." While teaching the customary skills, the program emphasizes others such as estate planning, ethics and client relationship management.

Partnership is key. The program is guided and partially funded by the Global Asset and Wealth Management Business Council, whose 17 members rank among the top Canadian investment industry firms and organizations including RBC Global Private Banking, Scotiabank and HSBC Asset Management (Canada) Ltd. Council members provide internship opportunities, act as mentors for students and participate in the program's weekly speaker series.

"Working with the council means we can offer students valuable work experience, access to the wealth management community and better employment prospects," says SFU's dean of business, Ernie Love. Richard Durrans, vice-president at Philips, Hager and North Investment Management, says he is proud to be involved with the program and expects the graduates will go on to make important contributions to the growing area of personal wealth management in both Canada and abroad.

To the friendly waters of Atlantic Canada...

At Dalhousie University in Halifax, the Centre for International Business Studies (CIBS) has delivered an international program of teaching, research and outreach services since 1975.CIBS places students in Canadian embassies and con-

sulates around the world, and then matches them with two or more Canadian companies. To date, more than 100 Atlantic businesses accessed interns posted around the world in countries such as the U.S., Barbados, France and Norway. The linkage with business is what makes the program a success," says CIBS director Dr. Carolan McLarney.

For Keywood Enterprises Limited, a New Brunswick tree farm business, the program will help them diversify its customer base in the U.S. "Since 1999, three CIBS interns have helped us explore market opportunities in cities such as Dallas, Chicago and Atlanta," says Gordon Young, who owns and operates the business in partnership with his wife Carole.

Wear Well Garments, a manufacturer and supplier of work apparel, had a similarly positive experience with their CIBS intern, Jennifer Cleversey. "We wanted to explore opportunities in New York but couldn't spare the people to do it ourselves," says Shawn Brown, Wear Well's vice-president for sales and marketing. "Jennifer conducted research on the competitive situation and identified where we should focus our efforts."

"Our competitiveness in global markets and our ability to attract international investment depends on having global-minded leaders who are well-versed in the challenges and opportunities of international markets," concludes EDC's chief economist Stephen Poloz.

With programs like Dalhousie's CIBS and SFU's Global Asset and Wealth Management MBA, we're well on our way. ■

We Want to Hear Your Stories

If you are one of EDC's partner universities and would like to share your success stories on how you are working with Canadian business to shape Canada's future global leaders, please contact us at exportwise@edc.ca.

EDC's EYE on the Future

Photo courtesy of Photo Features

BY **BONITA WILLIAMS**

The great Irish wit, Oscar Wilde, said that experience is the name we give to our mistakes. He might have been talking about any exporter for whom trial and error was about the only teacher of international business.

A number of Canadian educational institutions are working to change that. By fostering learning and employment opportunities for Canada's next generation of business leaders, they are helping to build an export culture. EDC is behind them all the way.

"EDC has the largest pool of trade finance specialists in Canada and we are proud to support tomorrow's business leaders through scholarships, guest lectures, case studies and sponsorship of international trade training programs," says Marie Claude April, director of EDC's Education and Youth Employment (EYE) Strategy.

Dalhousie University's Centre for International Business Studies (CIBS) is one of two dozen Canadian universities benefiting from EDC. CIBS offers Atlantic-based companies access to in-depth market information by placing its students in Canadian embassies abroad. "These students partner with companies to help them identify international growth opportunities," says CIBS director Dr. Carolan McLarney. "In return, students get valuable work experience."

At British Columbia's Simon Fraser University, students benefit from guest lecturers, project case studies and access to timely market intelligence, says Margaret Vandenberg, SFU Business Faculty's associate director of advancement. "EDC's three-year commitment of $40,000 also supports scholarships for our best undergraduate and MBA students."

EDC makes scholarships available through its partner universities: 23 scholarships of $3,000 for undergraduate students in business or economics, and two scholarships of $5,000 for MBA students with an interest in finance, international business or international relations. This includes a four-month work term at EDC, valued at $9,000-$13,000.

EDC also supports other organizations such as the Association for the International Exchange Students in Economics and Commerce (AIESEC). "EDC is a platinum sponsor of AIESEC, the world's largest student-run organization," says April.

Global Vision is another EDC sponsored organization. Global Vision has trained senior secondary school students in international affairs for 20 years. "Thanks to programs such as this, ours is likely to be the last generation of business leaders that will rise to the top without international experience," says Terrence Clifford, chief executive and principal of the Global Vision School. ■

For more information on EDC's EYE Strategy, call 1-866-229-9918 or visit www.edc.ca/youth.

Bringing a Breath of Fresh Air to Exports

BY **JANE DALY** AND **PAUL STOTHART**

Few issues have attracted as much recent attention as Canada's ratification of the Kyoto Protocol. But no matter which side of the fence you see as greener – be it the green of money from economic growth or the green of Mother Nature – one thing is clear: the world is taking a fresh look at Canadian companies that create and export clean energy technologies.

Photo courtesy of Powertech Labs

Ratified by 104 other countries, the Kyoto agreement, once in effect, will commit Canada to reducing greenhouse gas emissions to six per cent below 1990 levels by 2012. This ambitious target requires a 20 to 30 per cent reduction from today's levels.

The most obvious target is carbon dioxide (CO_2), a by-product of the combustion of coal, oil and gas. A large portion of Canada's heating, production and transportation processes are driven by these fossil fuels, so it is challenging to disassociate emissions growth from overall economic growth.

However, when you look at alternative clean energy technologies, the future looks promising that economic growth and environmental improvements can occur in parallel. Canadian companies are developing a range of technologies in many renewable and alternate energy areas, including wind, small hydro, hydrogen, biomass, solar, wave, tidal and ocean energy. In 2002, they captured business in Chile, Italy, Argentina, China, Columbia, Spain, Saudi Arabia and the United States.

There is renewed interest in hydrogen even though it is not a new concept, says Jon Slangerup, president and CEO of Stuart Energy Systems Corporation. In fact, Stuart Energy (formerly known as Electrolyser) was created in 1948, and the founder of the company experimented with this technology nearly a century ago. Stuart Energy is a world leader in supplying water electrolysis based hydrogen generators, which separate water into hydrogen and oxygen. When the hydrogen fuel is consumed in a fuel cell, or hydrogen internal combustion engine, either to run a vehicle or heat a building, the emissions are essentially nothing more than steam. The company has placed 1,000 installations at sites in nearly 100 countries.

"Interest in hydrogen increases when there is a fuel shortage but once the crisis passes, interest drops," says Slangerup. "Our society is dependent on traditional fuels and our infrastructure is built around it. Once the crisis ends, why change if you don't have to?"

Statistics confirm that adoption is slow. Biofuels such as ethanol and biodiesel represent only 0.4 per cent of the transportation fuels market in the U.S., while wind/solar energy sources represent a mere 0.1 per cent of total U.S. electricity supply.

This is expected to change dramatically. Clean Edge (2001) estimated global growth to 2010 for the key renewable energy sectors such as wind is estimated to grow from US$4 to $43 billion and solar PV from $2.5 to $23.5 billion.

Gearing up for change

The light is definitely green for growth in this sector, but in an industry that Slangerup describes as "steady but quiet," how do you cope with sales that could double or triple over the next few years?

For Stuart Energy, the plan is to create awareness, build demand, and focus on mass adoption in the most

promising locations. "We look for places that are early-adoption markets and have support from their governments and the public, such as Hong Kong, Los Angeles and Scandinavia," says Slangerup.

Powertech Labs of B.C. is another company that exports much of its technology. While Powertech is involved in many clean energy technologies, including wave and tidal energy, most of their work is associated with hydrogen fuel storage and delivery systems.

"Stuart Energy produces the hydrogen and Powertech is working with

Photo courtesy of Stuart Energy Systems Corporation

Stuart Energy's hydrogen fueling solutions are designed to meet the immediate needs of today's transportation customers and scale-up with the market.

other companies to develop compressed hydrogen storage containers to transport the fuel," says Craig Webster, director of the gas systems unit at Powertech." "For a hydrogen-powered car to travel a reasonable distance, a few kilograms of hydrogen needs to be carried on board. But since hydrogen is very light, this would require a huge container. The solution is to compress the hydrogen into a volume that is comparable to the gas tank of a conventional automobile. The technology to achieve this goal is the focus of our efforts."

Energizing Facts

Outlook for international demand

The International Energy Outlook (2002) predicts energy demand will increase by 1.7 per cent from 2000 to 2030, and renewables will grow an average of 3.3 per cent yearly. The most significant increase in energy demand will be from Asian countries.

Clean Edge (2001) also estimates growth in renewable energy sectors to 2010:

Wind:	from US$4 to $43 billion
Solar PV:	from US$2.5 to $23.5 billion
Fuel cells:	from US$0.2 to $10 billion
Micro turbines:	from US$0.08 to $5 billion

Who are the players?

Wind energy is the conversion of the kinetic energy of wind into electricity. Canada manufactures a number of utility-scale wind turbine components. Companies can only compete in markets without local manufacturers, as wind turbines are large and expensive to transport. Currently the EU leads the industry, with the U.S. and India following.

Small hydro power (SHP) Most use a river's natural flow to produce energy and are, therefore, susceptible to water level variability. Canada is a leader and has some well-established and internationally competitive companies.

Solar energy can be active (photovoltaics and parabolic dishes) or passive (water, space and process heaters). Canada's solar energy industry is modest, with a large number of small companies. Recent growth in the global PV market has been driven by progressive on-grid residential and commercial system policies and programs in Japan, Germany and the U.S. Growth in the Canadian PV market is in off-grid applications (remote cottages, communities, telecom towers, etc).

Wave, tidal and ocean energy convert energy inherent in water movement. There is global potential, particularly off the coasts of South America, Canada, Australia, Europe and South Africa. There are about 10 Canadian companies exporting demonstration projects of this technology. These technologies have enjoyed renewed interest with a more efficient line of products being produced.

Earth energy draws temperatures from within the earth or below water bodies to cool or heat air and water. It is typically used for space and water heating/cooling applications in residential, commercial, institutional and industrial buildings. It tends to be more efficient than conventional furnaces. Similarly, geothermal energy captures steam or hot water as it escapes from cracks or fissures in the earth's crust and uses it for space or water heating or to power turbines.

Hydrogen fuel is created from either electrolysis of water or fossil fuels such as natural gas. It releases no CO_2 emissions when burned. Canada is recognized as a world leader in developing hydrogen and fuel cell industries, with more than 40 companies. Thirteen companies are primarily focused on fuel cell production or system integration, while others are involved in hydrogen development and refuelling infrastructure. Eighty per cent of this sector's revenue is from export sales, and global demand, according to Fuel Cells Canada (2002), will reach $46 billion per year by 2011.

Statistics

According to Statistics Canada (2000), the U.S. is the most important export market (70 per cent). Europe ($127.1 million) and Asia ($77.9 million) follow. Statistics Canada (2000) also estimates that 772 companies earned revenues from foreign markets for a total of $1.3 billion for the environmental sector in 2000 (66 per cent for goods, 34 per cent for services).

Diversity Breeds Innovation

BY TOBY HERSCOVITCH

How many times has business been urged to think outside the box? Chances are, this will happen more often if the ideas come from all segments of society.

This is largely the rationale behind the Prime Minister's Task Force on Women Entrepreneurs created to advance the contribution of businesswomen to the Canadian economy. Exporting is key to this advancement, with studies showing that average sales of exporting firms run by women are double those of their non-exporting counterparts.

Another growing group of entrepreneurs comes from Canada's aboriginal community. The most recent Directory of Aboriginal Exporters, published in 2002, tracks 470 active and export-ready firms compared to 218 in 1999.

Here we profile two award-winning businesses from both these segments of Canadian society.

Bravado! Designs: Top-form Bras Pad Bottom Line

From leopard-spotted bras to floral thongs, Bravado! Designs of Toronto has turned maternity lingerie from the practical and prudish, to the comfy and colourful. So, who would imagine that you could do something funky with undergarments for expectant moms, and grow a business too?

Women, of course – the *Eureka!* hit in 1992 when cofounder and mother-of-two, Shery Leeder, was managing an infant wear store. She and her original partner, a costume designer, saw a need to boost the body image of pregnant and nursing mothers. Within weeks, they had turned out their first batch of well-fitting, polka-dot maternity bras.

Bravado! Designs owners Shery Leeder and Kathryn From.

"We hit on the right trend at the right time," says Leeder. While the company

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Add Change Delete

Name

Title

Company

Email

Address

City Prov Postal Code

Telephone Fax

Yes. I would like an EDC representative to contact me.

Yes. Please send me more information. I'd like to learn how EDC can help my business.

Demographic information

Language preference

EN English FR French

Please indicate if you are...

C an EDC customer
P a potential EDC customer
E an educational institution
T an association
S a student
O other: ______
G a government official

Please indicate annual export sales:

V1 less than $1M
V3 exceeding $5M
V2 $1M to $5M
V4 not currently exporting

Principal product and/or service:

1.

2.

3.

CANADA POST | POSTES CANADA

Postage paid
if mailed in Canada
Business Reply Mail

Port payé
si posté au Canada
Correspondance-
réponse d'affaires

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MDS MACFARLANE DATA & MAILING SVS.
2750 SHEFFIELD RD UNIT 1
OTTAWA ON K1B 9Z9

out-sources the sewing, it keeps a tight rein on quality control and promotes innovation in design and product line.

"We're not just selling a product – we focus on the whole [motherhood] experience. Our products bolster self-esteem," notes Kathryn From, CEO.

Exporting began with a buyer's call from California. Since then, overall sales have grown an average of 30 per cent a year and are closing in on $5 million. Exports to the U.S., U.K. and other countries represent about 85 per cent of this volume.

"At first, we used a distributor in the U.K., until financial disaster hit – luckily we were backed by EDC insurance for our receivables there." Bravado recovered 90 per cent of what otherwise could have been a US$25,000 loss. The same year, it won a Canadian Woman Entrepreneur of the Year Award in the Export Category (the latter sponsored by EDC).

"We're not just selling a product – we focus on the whole [motherhood] experience.

While exports have grown, so too has the product line. Bravado has introduced nursing sleepwear that could be the sleeper hit of this year's maternity wear line-up. ■

COMPANY PROFILE

Business: Maternity underwear and sleepwear
Location: Toronto
Established: 1992
Employees: 23
Exports: 85 per cent
Export Markets: United States, Europe, Asia
Contact: www.bravadodesigns.com

ACR Data-loggers: Pint-sized Know-it-alls

You can't fool the energy conservation "police" anymore. With an ACR Systems Inc. data-logger, compact as a deck of cards and tracking reams of information from temperature to electric current, there's no escaping the fact that you left the lights on and the heat up.

"There was actually a 'sting' in Minnesota, where state law requires institutions to set back their thermostats at night," says David McDougall, ACR Systems general manager. "A TV news team put our data-loggers in several institutions and discovered while the schools were turning their thermostats down, the school administration was not."

ACR, based in British Columbia, was founded in the mid-80s by Albert Rock, an entrepreneur and pioneer in Canada's aboriginal business community. As a contractor testing mechanical systems to improve energy efficiency and comfort in institutions and other buildings, Rock figured he could come up with an automatic data-logger to increase accuracy and efficiency. Today, the ACR data-loggers have multiple uses with new ones cropping up regularly: from ensuring food safety in storage, to tracking process controls in manufacturing, to ensuring optimum water quality in aquariums, and much more.

Innovation is key to the company's success. Comparing ACR's products to those of competitors, McDougall points out, "Our data-loggers are more compact and store more information. And they can last up to 10 years without battery replacement."

No wonder these products are in some 80 countries around the world. Exports now represent about 80 per cent of ACR's sales. "We got into exporting almost from the get-go, when I started attending overseas trade shows," notes Rock. "If you believe in your product, don't be intimidated about getting out and trying to export."

"Until we put EDC insurance in place, we were not using credit as a competitive tool."

McDougall believes that exporting is easier with EDC backing. "Until we put EDC insurance in place, we were not using credit as a competitive tool. Now we treat our international sales the same as our domestic ones, knowing that EDC is our safety net. We are also in markets that we would not have gone into otherwise."

Typical of the restless entrepreneur, Rock, who lives in the Yukon, is also involved in other business opportunities. This just goes to emphasize that innovation is not the domain of any particular group...no data-logging proof necessary. ■

COMPANY PROFILE

Business: Portable data-loggers
Location: Surrey
Established: 1985
Employees: 28
Exports: 80 per cent
Export Markets: 80 countries
Contact: www.acrsystems.com

Photo: Doug Millar Photography

Your story "Columbia: New Government Promises Fresh Approach" (*ExportWise*, Winter 2003) was notable for the complete absence of two critical words: human rights.

The main story (co-authored by Peter Brake and David Goldfield) glossed over the worst human rights crisis in our hemisphere. Columbia's four-decades-old conflict has forced more than two million people from their homes and kills more than 20 people every day, most of them civilians killed in non-combat situations.

Rod Lever's sidebar on political risks gave a better view of the violence that plagues Columbia…but again, the words "human rights" are notably absent.

Since coming into office in August 2002, President Alvaro Uribe's "fresh approach" has been to sacrifice human rights on the altar of "security." But if, as is likely, these policies lead to an exacerbation of the already serious human rights crisis then what kind of security will President Uribe really be able to offer his country's citizens? And what kind of security can Canadian companies doing business in Columbia expect?

Your readers should visit www.amnesty.org where they will find a copy of the recent Amnesty report: *Security at What Cost? The Columbian Government's Failure to Confront the Human Rights Crisis.* And Canadian companies considering doing business in this strife-torn country should also review our *Human Rights Principles for Companies*, available at www.amnesty.ca.

Alex Neve
Secretary General
Amnesty International Canada

Our mistake

In the Winter 2003 edition of *ExportWise* we incorrectly identified the recipient of the Professional and Services Award of the 2002 B.C. Exports Awards. The correct recipient of this award is Rescan Environmental Services Ltd™. Rescan, based in Vancouver, British Columbia, is a Canadian consulting firm specializing in environmental management. In addition to a complete range of environmental services encompassing environmental engineering, metallurgy, chemistry, oceanography, environmental sciences, socioeconomics and resource planning, Rescan offers expertise in government liaison and project management.

Don't be Shy

If you have a story idea, know of a special achievement, or would like to tell us about your funniest exporting experience, write to us at *ExportWise*, Export Development Canada, 151 O'Connor St., Ottawa ON K1A 1K3, or send us an email at exportwise@edc.ca.

ExportWise

Editor
Brenda Brown
brbrown@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateur avertis* is led by Anne Tanguay, in collaboration with Maguy Robert.

Contributors
Dominique Bergevin, Alain Bourdages, Peter Brake, Jennifer Brooy, Maxime Charbonneau, Jane Daly, Genevieve Dubois-Richard, J. Claudio Escobar, Trish Edwards, Noe Elizondo, Essya Ferjani, A. Ian Gillespie, Toby Herscovitch, Marvin Hough, Dennis Jones, Sandi Jones, Jocelyne Lussier, Alison Nankivell, Fergal O'Reilly, Jean-Louis Renaud, Susanna Sottimano, Colin Suys, Ihab Tadros, Michael Toope, Claudia Verno, Bonita Williams

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Rosemarie Boyle, Donna Choquette, Marc Deschênes, Mark Bolger, Andrew Douglas, Judy Dudley, Ruth Fothergill, Linda Graupner, Glen Hodgson, Walt Hutchings, Suzanne Joberty, Alison Lawford, Diana MacGibbon

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Lowe-Martin Printing

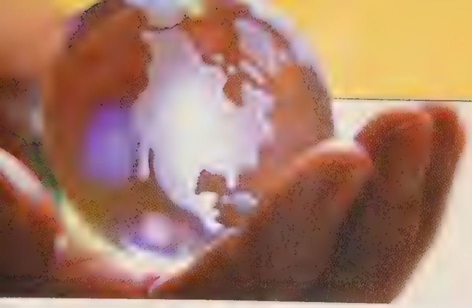
EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC



Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC's Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC's Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

How secure are your investment loans?

With EDC's Political Risk Insurance of Loans, we offer increased protection for your loans from political and economic catastrophes.

For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

With EDC's Direct Loans, it can happen. EDC arranges financing agreements with foreign buyers, or foreign borrowers on behalf of foreign buyers, for the export of Canadian capital goods or services.

Does your foreign buyer need a loan?

Perhaps EDC's Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's web site at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

For more information on these products visit **www.edc.ca/financing**

Bonding

What if my buyer demands a bond?

You can get bonds from either your bank (letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by giving you an insurance policy that will ensure the bank or surety company gets paid.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC's Bid Security Insurance (BSI) and Performance Security Insurance (PSI) which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control such as war.

For more information on these products visit **www.edc.ca/bonding**

Online Services

Want some market insight that will actually help you make a decision?

Check out EDC's EXPORT MarketInsight, economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.

Want to assess your credit risk – FAST?

Determine the credit profile of more than 70 million buyers, on-line and anytime, with EDC's EXPORTCheck.

Want to export with peace of mind?

Give your foreign buyer time to pay and protect against nonpayment with EDC's EXPORTProtect. Quick. Secure. Affordable.

Need to insure your bid or performance – FAST?

With EDC's e-Performance Security Insurance, apply, accept and pay on-line for your bid security insurance or performance security insurance, all in a few clicks.

Are you ready to enter the export market?

Test your readiness by completing EXPORTAble?, an on-line questionnaire to help you prepare your entry into foreign markets.

For more information on these products visit **www.edc.ca/e-services**

Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at 1-800-850-9626.

Could you use more working capital?

With EDC's Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC's Simplified Contract Bonding, a streamlined application/ approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Emerging Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in new and emerging markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Investment and Trade go Hand-in-Hand

BY STEPHEN S. POLOZ

Photo: Doug Millar Photography

Globalization is forcing companies to rationalize their production processes around global supply chains, thereby making them transnational in scope. This means that the world is becoming more dependent on international trade for every dollar of income generated, and building those trade linkages requires increasing amounts of cross-border investment.

There was a time when companies invested in foreign countries in order to circumvent trade barriers. Countries would tax imports to protect their domestic industries, and the only way to compete for business in those countries was to invest there and produce the goods locally.

International trade barriers are much lower today. As a consequence, it is increasingly the case that products are being broken down into their components – rationalized, in business parlance - and then each component is produced in the most advantageous place. The result is a global product, made in many countries, with production distributed along a global supply chain. Building those supply chains means making cross-border investments, and, coincidentally, doing lots of international trade – first, to get the pieces assembled into a final product, and then to get it into the hands of the consumer.

This process of product rationalization and the building of global supply chains is the practical end of what is generally called globalization. One of the defining features of that rearrangement of the global economy is that cross-border investment and international trade go hand-in-hand, instead of acting as substitutes for one another, as they often did in the past. And understanding this linkage between trade and investment is crucial to appreciating how international investment affects the Canadian economy.

Consider the case where a foreign company is considering making a new investment in Canada – an inbound foreign investment. Most would see this as a good thing, because the money spent by the foreign company is spent in Canada, creating economic growth, new jobs and future export sales. All true, but the situation is more complex than that. Foreign companies tend to use their favourite (foreign) suppliers and engineering firms for their investment projects, which means some of the spending on the project leaks back out of Canada. The new facility is integrated into a foreigner's global supply chain. This means that there are benefits both to Canada and to the foreign country in making that investment in Canada.

What about when the investment goes the other way around? When Canadian companies invest in a foreign country – an outbound foreign investment – Canadian observers sometimes react negatively, because they would prefer to see those companies invest in Canada instead. But that reaction ignores the fact that there are major benefits to Canada from outbound investment, too. A Canadian company making a new investment in a foreign country is very likely to use its favourite (Canadian) suppliers and engineering firms for the project, and then to integrate the new facility with other parts of its global supply chain once it is up and running. The investment therefore serves as a platform for a whole new set of international trade linkages that benefit Canada. In addition, the new incomes generated in the foreign country by the new facility represent new potential demand for Canadian exports.

The result is that outbound investment from Canada is also associated with increased exports from Canada. Statistically, this effect is found to be especially large when the investment is in a developing economy, where there are fewer competing suppliers at hand.

No wonder, then, that foreign investment is such big business. In 2002, there was about US$550 billion in global cross-border investment. China is attracting about 10 per cent of the money, more, even, than the U.S. Other economies that stand out include India, South Korea, the Czech Republic and the Eurozone. Canada, too, attracts more than its fair share, about five per cent of the total, even though it represents only two per cent of the global economy. But Canada invests even more than this in other economies – since our balance of payments is in surplus, we automatically are net investors in the rest of the world.

The bottom line? Global economic growth is being driven by growth in international trade, and increasingly, we find that cross-border investment is a prerequisite to international trade. This means that cross-border investment creates economic value for Canada, regardless of whether it is inbound or outbound. ■

Stephen Poloz (spoloz@edc.ca) is EDC's vice-president and chief economist.

EDC's Let's Talk Risk Workshops

Toronto	April 22nd
Hamilton	April 23rd
London	April 23rd
Windsor	April 24th
Ottawa	April 25th
Winnipeg	April 28th
Saskatoon	April 29th
Vancouver	April 30th
Calgary	May 1st
Edmonton	May 2nd
Halifax	May 6th
St. John's	May 7th
Charlottetown	May 8th
Fredericton	May 9th
Quebec City	May 14th
Montreal	May 15th

www.edc.ca/ltr

EDC Contacts

Western Canada

Lewis Megaw
Regional Vice-President

Vancouver
Tel: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto
Tel: (416) 640-7600
Fax: (416) 862-1267

London
Tel: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel: (613) 597-8688
Fax: (613) 598-3811

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel: (709) 772-8808
Fax: (709) 772-8693

contactatlantic@edc.ca

International

Mexico
Marvin Hough
Regional Director for Mexico & Central America
Tel: (011) 5255-5387-9316
Email: mhough@edc.ca

Noé Elizondo
Regional Manager
Monterrey, Mexico
Tel: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel: (011) 55-11-5509-4320
Email: cescobar@edc.ca

Poland
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel: (011-48-22) 584 3240
Email: dgoresky@edc.ca

China
Alison Nankivell
Regional Director for China
Tel: (011) 86-10-6532-3536, ext. 3357
Email: anankivell@edc.ca

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
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EDC's Magazine for Canadian Exporters

www.edc.ca

Summer 2003

ExportWise

[D]iving Deep into Exports

Submerged in the commerical diving industry, OceanWorks International has emerged an export winner.

In This Issue

Making Music in Canada
Exporting Western Style
Peru: Mountains of Opportunities
Pinpointing Opportunities with Geomatics
...and more

SARS a Reminder of Global Interconnectedness

The SARS virus brings home the message that when one country coughs, the rest of the world gets sick. By the same token, the health of a nation depends on how it interacts and trades with other countries.

A. Ian Gillespie
President and Chief Executive Officer

If Severe Acute Respiratory Syndrome (SARS) has become symbolic of today's uncertain environment, then it is also a reminder of our global interconnectedness.

Since 1990, trade penetration, the ratio of total trade to gross domestic product (GDP), has leaped from 50 per cent to more than 80 per cent for Canada, 25 to 50 per cent for China and 20 to 24 per cent for the United States.

This means that global trade is growing more rapidly than global GDP and that our prosperity is irrevocably dependent on international trade.

Foreign direct investment (FDI) has become the linchpin of this phenomenon. Throughout the 90s, FDI inside and outside of Canada, experienced double the growth of imports and exports combined. In the past, companies would invest abroad to get around trade barriers; now many concentrate on what they do best and invest abroad to get the best value.

In building global supply chains, products may be designed in one country, parts manufactured somewhere else, the end product packaged in another location, and the whole marketed and distributed globally.

While some jobs may flow to the foreign country, others are created domestically by supplying capital equipment or engineering and management services to support the new project. Consequently, FDI generates trade and delivers mutual benefits, regardless of which direction the investment flows.

Another reality is that more foreign investment will take place in developing economies. Not only are natural resources and labour plentiful, but consumer demand is expected to grow rapidly. For example, some 75 per cent of Asian goods are now traded regionally, compared to 50 per cent five years ago.

To prepare for the future, Canadians need to ensure their business plans can absorb instability by investing in equipment and processes to make their business more productive and cost effective.

Innovation – from research and development, to investing in learning in a knowledge-driven world, to rethinking customer service – is another priority. A vital link in the Innovation Agenda is international trade. Studies show that R&D and productivity are higher among exporting firms, with the resulting growth up to four times higher.

With the increasing importance of outbound foreign investment, the developing world is the natural place to consider building links in the global supply chain. And while opportunity comes with risk, Canadians do not have to go it alone.

Increasingly, companies are calling on public and private financial partners to facilitate more FDI, as opposed to traditional exports, and to help them mitigate political and credit risks in developing countries.

There are additional challenges in the current environment – from the risk of terrorism to the spread of previously-unknown germs – all of which are raising the cost of crossing borders, increasing insurance premiums and threatening consumer confidence.

However, this is the cost of doing business today; it will not alter the fundamental picture: the 21st century will continue to see more international trade per dollar of GDP, more foreign direct investment per dollar of international trade and more growth in high-risk markets per dollar of FDI.

Canadians have the ability to thrive in this new world, as long as more companies innovate internally, position themselves to export or invest externally, and partner with both public and private institutions to produce global clout. Our future prosperity and marked contribution to the world economy depend on it.

A. Ian Gillespie

A. Ian Gillespie, C.I.T.P.

ExportWise
Summer 2003

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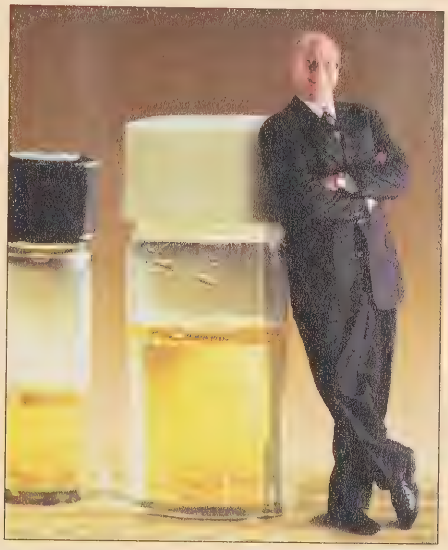

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Cover Photo: Courtesy of OceanWorks International Inc.

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Making Music in Canada

BY VERONICA PROCHAZKA

Like many countries, Canada dances to the beat of its own drums and, in some cases, to the beat of guitars, cymbals and pipe organs too.

Although little analysis has been done to [illegible] the specialized industry of music products in Canada (which includes musical instruments, accessories and sound and lighting products) Canada is world renowned for manufacturing guitars, cymbals and pipe organs.

In 2001, Canada's music product sales totalled $513.6 million, placing Canada sixth in the world behind the United States, Japan, Germany, France and the United Kingdom.

Because of high labour costs, Canadian manufacturers are at a disadvantage when it comes to competing against international manufacturers (with lower labour costs such as China) in mass markets. However, Canadian manufacturers are highly successful in niche markets such as using innovation or custom, hand-made skills to develop higher quality products at lower production costs.

Two such innovative companies are Garrison Guitars of St. Johns, Newfoundland, one of Canada's largest acoustic guitar manufacturers, and Ayotte Drums of Vancouver, British Columbia, Canada's leading designer and manufacturer of custom hand-made drums. Here we share their unique stories of making music in Canada.

Garrison Guitars: Strumming Up Innovation

When Chris Griffiths picked up his first guitar at age 12, revolutionizing the age-old industry of acoustic guitar manufacturing was most likely the furthest thought from his mind. But nine years later, Chris did exactly that, and created a very lucrative business at the same time.

Griffiths is the founder and president of Garrison Guitars, one of Canada's largest acoustic guitar manufacturers. He is also the creator of the Griffiths Active Bracing System (GABS)™, a revolutionary technology in the manufacture of acoustic guitars that enables Garrison to produce a high-quality guitar at a lower price.

The technology he developed decreases the number of pieces needed to build the frame of a guitar from 40 to eight by combining many of the individual wooden pieces with a glass fiber injection molded bracing system that is made in 45 seconds. "It's basically a superstructure that increases the strength and durability of the guitar, and gives us manufacturing efficiency," Griffiths explains.

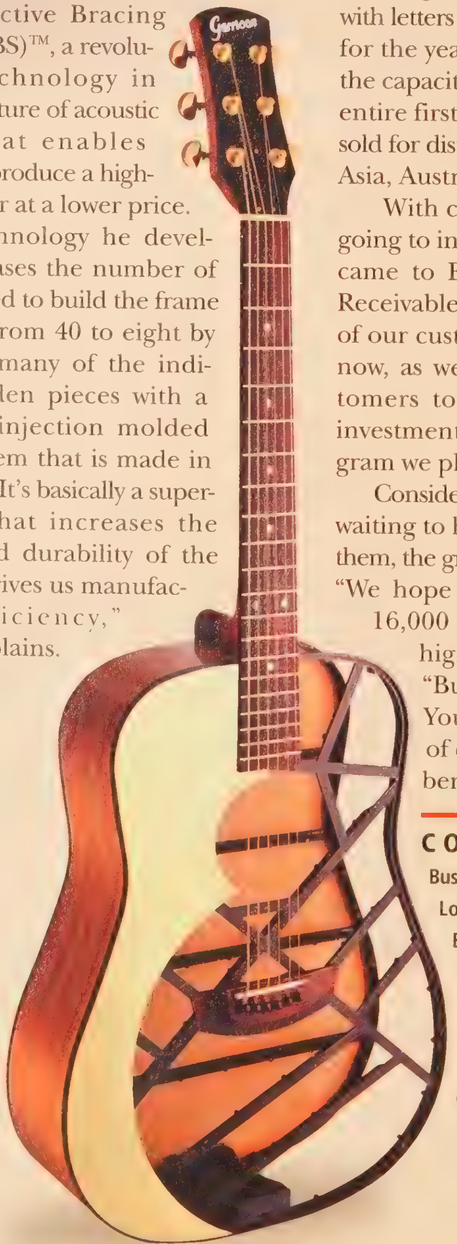


Photo: Courtesy of Garrison Guitars

Given this technology, which makes sense in a high volume market, it was natural for Garrison Guitars to start exporting. "The guitar market in Canada is not large, so if you want to build a big factory and you need to produce 12,000 units per year to justify its existence, you have to think globally."

As it turns out, "thinking globally" didn't take much effort. After unveiling its prototype guitar in 2000 at NAMM in Los Angeles, the company came home with letters of intent totalling 46,000 units for the year. Not bad when it only had the capacity to make 12,000! Garrison's entire first year of production was pre-sold for distribution throughout Europe, Asia, Australia and North America.

With close to 100 per cent of sales going to international buyers, Garrison came to EDC in 2002 for Accounts Receivable Insurance. "Although most of our customers pay in advance right now, as we grow and encourage customers to make bigger and bigger investments in inventory, this is a program we plan to use to a great extent."

Considering the large list of countries waiting to have distributors assigned to them, the growth of Garrison is inevitable. "We hope to increase production to 16,000 units a year, maybe even higher, in 2003," says Griffiths. "But growth is a funny thing. You want to grow at the speed of quality, and that's our number one priority." ■

COMPANY PROFILE

Business: Manufactures acoustic guitars
Location: St. John's
Established: 2000
Employees: 65
Exports: 97 per cent
Export Markets: United States, Europe, Asia, Australia, New Zealand
Contact: www.garrisonguitars.com

Ayotte Drums: Marching to the Beat of Their Own Drum

If you were to select a word from the dictionary to describe the essence of Ayotte Drums Inc., Canada's leading designer and manufacturer of custom hand-made drums, one word would suffice: passion.

Since its humble beginnings in 1982 in the back of a drum rental and repair shop in Vancouver, British Columbia, Ayotte Drums has always been, and always will be, a band of drummers striving for excellence in their chosen field.

This field, however, is limited. The market for high-end drum kits in Canada can only bear a finite number. In order to grow and prosper, it was inevitable that Ayotte would start exporting.

The company began to do so (aside from one-offs to the United States since its inception) by reaching out to Europe in 1985. Today, with 85 per cent of sales attributed to international customers, Ayotte exports its drums to the United States, the European Union, Asia and the Pacific Rim.

When asked what essential ingredients contributed to Ayotte's success, Bill Jennison, president and chief executive officer, lists three: sticking to a solid business plan, unwavering quality and EDC.

Early in 2002, Ayotte redefined its position in the market, deciding to focus solely on high-end, hand-made drums. "We've seen nothing but positive results from suppliers, retailers and buyers," Jennison says. "Our drums may cost more than other manufacturers, but the simple reason for that is quality."

It's this quality that sets Ayotte apart from its competition. "Everyone who works at the plant is a drummer. As a result, we're absolutely dedicated to perfecting our craft, and we stand behind it fully. Where most drum manufacturers have a maximum five-year warranty, we've just implemented a 25-year warranty."

Lastly, Jennison credits EDC as a contributor to their international success. "Anyone planning to export should partner with EDC. It's fundamental. With EDC's Accounts Receivable Insurance, we don't have the added stress of not getting paid, and our comfort level when entering new markets is raised considerably."

And enter new markets Ayotte will. With plans to establish a major distribution network in Asia and introduce a new line of drums, 2003 is set to be another successful year for this merry band of drummers. ■

COMPANY PROFILE

Business: Design and manufacture of custom hand-made drums
Location: Vancouver
Established: 1982
Employees: 12
Exports: 85 per cent
Export Markets: U.S., Europe, Asia, Pacific Rim
Contact: www.ayottedrums.com

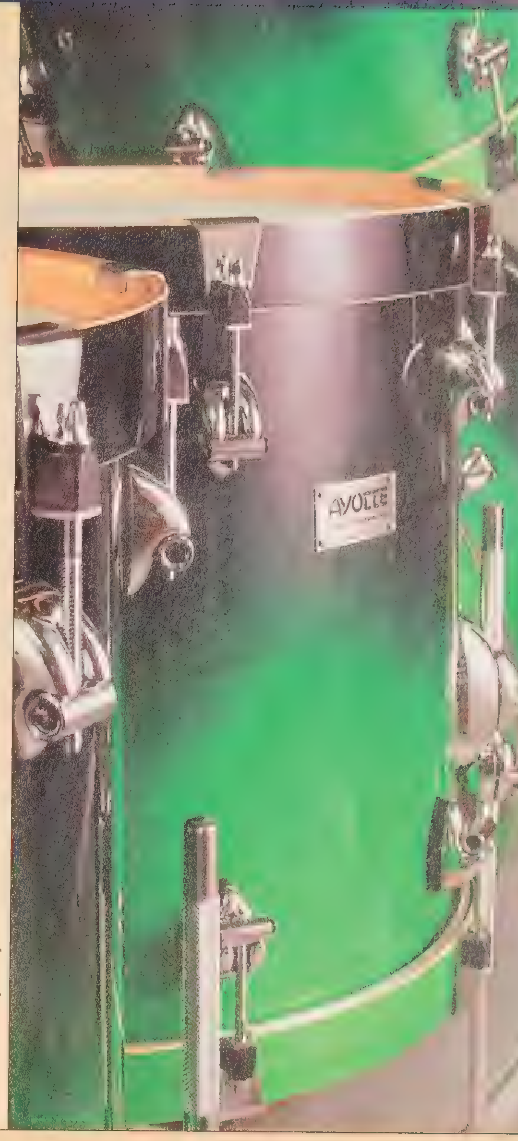


Photo: Courtesy of Ayotte Drums

EDC Brings the NAC to the World Stage

EDC is proud to be taking part, as presenting sponsor, in the National Arts Centre Orchestra's United States and Mexico Tour of 10 cities, beginning in November. The tour will showcase the talents of some of Canada's top musicians before audiences in two important markets for Canadian exporters: Mexico and the U.S.

"The tour will be more than just a one-time event," says A. Ian Gillespie, EDC's president and chief executive officer. "Through an educational component consisting of master classes, workshops with National Arts Centre Awards Composer Denys Bouliane, teaching kits and a web site, the tour will leave a lasting legacy with all Canadians," he adds.

In addition, the concerts and related educational activities in cities across North America will provide a unique opportunity for EDC to build awareness and strengthen Canada's brand as well as its own.

The National Arts Centre Orchestra is Canada's premier orchestra, headed by world-renowned conductor, violinist and violist, music director Pinchas Zukerman. Founded in 1969, the orchestra has been thrilling audiences with creative performances throughout Canada and internationally for more than 30 years.

"Our definition of what an export is includes culture," Gillespie adds. "We are trying to do our part to bring Canadian excellence in performance and arts education into the international spotlight." ■

Photo: Courtesy of Odutola Law Chambers

When Prevention is the Cure

BY **MICHAEL TOOPE**

For Bayo Odutola, an Ottawa-based lawyer who specializes in helping his clients protect their intellectual property, an ounce of prevention is a lot cheaper than a pound of cure, and more effective to boot.

Odutola's firm, Odutola Law Chambers, provides advice to Canadian companies as they prepare to export, and to foreign companies thinking about entering the Canadian market in order to help them prevent copyright and trademark infringement in Canada.

For example, Odutola advises clients to register their trademarks before exporting, to gain legal protection from interlopers who might try to leverage a successful brand name. Seeking redress once an unregistered trademark has been violated is a lengthy and expensive legal process. Even if it is successful, it may not avoid damage to brand equity. A registered trademark, which is a grant from the Canadian government of exclusive rights, provides proof and security of title with additional remedies such as an injunction, monetary damages and destruction of the infringing articles. Odutola advocates this proactive approach as a component of a sound international business plan.

"I show my clients that the cost of protecting their ideas and innovations is nothing compared to the headaches that could arise if they find themselves in a legal conflict in a foreign jurisdiction," says Odutola. "To really make money with their ideas and products, they need to ensure their rights are protected."

Odutola works in a field of law he calls risk management, also known as preventive law. He and his clients work together to anticipate legal problems and to find ways to avoid future conflict and expense. "Litigation is time-consuming, expensive and often unpleasant for all parties concerned," Odutola says, underlining the impetus for a risk-management approach to the legal complications of international business.

Clients come to Odutola from a wide range of industries, from fashion design to software development. Many are emerging exporters, new to the world of international trade. Odutola and his team see themselves as extensions of the exporter's management team, guiding them through the minefields of entr
into foreign markets.

An exporter himself, providing lega
services to international companie
thinking about entering the Canadia
market, Odutola relies on EDC's Accoun
Receivable Insurance to protect his cas
flow from the unexpected realities of inte
national business. Once, a large interna
tional law firm based in the Unite
Kingdom would not respond to repeate
entreaties to pay past-due invoices, a
unfortunate circumstance faced by man
small exporters when dealing with indus
try giants. A quick call to EDC saved th
day. EDC sent a letter to the U.K. law firm
advising that the claims process would soo
be implemented, and payment to Odutol
arrived within 24 hours.

On another occasion, a high-tec
start-up went under after Odutola La
Chambers had spent months registerin
its trademarks in more than 20 countrie
Odutola was facing a drawn-out bank
ruptcy process prior to being able t
receive even partial payment. Fortunatel
Odutola's policy with EDC kicked in, pay
ing 90 percent of his receivables imme
diately.

Despite the success and stead
growth of Odutola Law Chambers
Odutola's greatest reward is helping hi
clients to achieve their goals.

"My clients are brand owners, inno
vators and inventors, creative people wh
make things happen," says Odutola
"It is very satisfying to play a role in thei
success." ■

COMPANY PROFILE

Business: Intellectual Property and Information Technology Law

Location: Ottawa

Established: 1997

Employees: five

Exports: Approximately 20 per cent

Export Markets: Europe, United States

Contact: www.odutola.com

Commentary:

Innovative Thinking – *The Key to Creating a Monopoly!*

BY **ED BERNACKI**

Rosebeth Moss Kanter, former editor of the *Harvard Business Review*, said the secret of innovation is that it gives you a temporary monopoly which means you can charge more for it. This monopoly, she suggests, is your ability to continually find the big ideas that count and create an advantage that is unique to your company.

That's a pretty good reason to be more innovative. The question is: Do you have an innovative product that the world wants? If so, are the systems related to your product or service as innovative as the idea behind your product or service?

Once you've answered those questions, remind yourself of the basic dilemma that all businesses face: the people who decide what is innovative and what is not, are customers, not you, the producer.

Perception is also reality. Having lived overseas for 12 years, I have discovered that many perceive Canada as a nice place with nice people. But we don't have a reputation for design such as the Swedes or Italians, or like the Germans for engineering. We, like Australia and New Zealand, are seen as countries that sell what we mine, grow or capture.

To change this perception, the pursuit of innovation for all companies must be a dogged commitment to eliminate mediocrity. Truly innovative organizations recognize that they compete not only against their competitors, but against complacency. A great product can be let down by mediocre marketing, follow-up support or servicing. As a result, we may blame the loss of business on price or external duties but the real reason is the total offering was simply less exciting overall.

To eliminate mediocrity, companies need to focus on design. Design combines a dozen, a hundred or a thousand innovative ideas, insights, and decisions to produce something that gets noticed. People describe these products or services as vital, simple, or conveying a sense of elegance.

The Apple's iMac computer is just one such example.

Look for the edges

To shape a more innovative organization, look for the 'edges,' the space between how everyone else does it and how it can be done. This is where you find insights into how you can be innovative and break the rules to your advantage.

Here's how:

- Define the rules of your industry. Line up your competitors brochures and check out their web sites to compare your product against theirs.
- Examine the five basic elements – production, distribution, human resources, marketing, on-going customer servicing – as part of your evaluation.
- Brainstorm how you can change the rules in some meaningful way, looking at each element in isolation and then as a whole.

Photo: Courtesy of The Idea Factory

Ask yourself these questions:

- What can be simplified or made more 'elegant' to make it stand out as the obvious solution for your customers?
- How can you create more utility or perceived value – evoke a sense that your product or service serves a real purpose?
- Does your product or service make people go 'WOW'? This is what is defined as the X-Factor – that ingredient that spells success.

"Innovation is a lonely art," said Robert Grudin, author of *The Grace of Great Things*. "The leader who looks to the frontier must face away from the people who follow."

Look for the edges that your competitors missed. Competitors may follow and copy you but your innovative skills will ensure that you always stay ahead of the game! ■

Ed Bernacki started the Idea Factory in 1996 to help organizations become more innovative. He is an international author and speaker based in Ottawa. He also exports his Navigator Guide innovation books to four countries. See www.WowGreatIdea.com

Stats on the States:
Tapping into American Regional Markets

BY **DENNIS** AND **SANDI JONES**

The U.S. economy remains sluggish, and nobody's quite sure what effects the war in Iraq will have on a recovery. That said, there's still plenty of opportunity for Canadian exporters south of the border. But especially in these uncertain times, Canadian businesses who want to prosper in the United States need a very good grasp of American markets – a better grasp, perhaps, than ever before.

One way to come to grips with the United States economy is to view it as a set of four regions: the West, the Midwest, the South and the Northeast. Each region has its own characteristics – pharmaceuticals and biotech, for example, tend to concentrate in the Northeast. A basic familiarity with these characteristics can help you plan the best strategy for your export ventures.

The West

The West, which includes Hawaii and Alaska, is a destination for vast quantities of Canadian exports. California is the region's real powerhouse, buying billions of dollars worth of Canadian automobiles, vehicle parts and natural gas. The state also has a big appetite for business machines and equipment, and is the second largest American clothing market after New York. Los Angeles is an excellent entry point for small businesses specializing in processed food and specialty food products. Elsewhere in the West, Canadian exports provide office, kitchen and bedroom furniture, plastic packaging, fertilizers, giftware and lumber.

The Midwest

The Midwest comprises 13 states running from Ohio, southwest to Oklahoma, and then north to the Dakotas. The region imports Canadian machine tools and accessories used in the high-tech industry and, despite the slowdown in this sector, there are still opportunities for suppliers of high-tech products in plastics and rubber, metal fabrication and automation services and machinery. There is also an appetite for newsprint, lumber, natural gas, office equipment and metal products. Because of Detroit's presence in the region, motor vehicles and parts are another big import from Canada, along with rubber and plastics.

The South

Once known as a mainly agricultural region, the South now has a broad range of industries and services, many of them having moved here from the north. Canada supplies them with machinery, forest products, transportation equipment, personal and household goods, metal products, synthetic rubber and plastics, office equipment, electrical lighting and organic chemicals. Atlanta, Georgia, is a leading test market for business-to-business services, and Nashville, Tennessee, is a major centre for health care companies. As for North Carolina, it's the major textile manufacturing state in the U.S.

The Northeast

The Northeast stretches from Pennsylvania and New Jersey to Maine. Canadian biotech companies may find opportunities in and around Boston, Massachusetts, as it is one of the major biotech innovation centres in the United States. The New York Tri-state region, with a population as big as Canada's, is a major Canadian market for natural gas, automobiles and forest products. It's also a key importer of our household furniture and is a priority market for products like apparel, gifts and toys. Another potential customer for Canadian exporters is the United Nations procurement market, which has a vast appetite for goods ranging from mine detectors to contraceptives.

Cutting the regions down to size

After reading all this, you may feel that a fully regional approach is going to be hard to manage. And if you're a small- or medium-sized exporter, you're right – the regions are too large for focused market development.

For a better approach, pick a region and identify the cities or areas that are prospering in a sector related to yours. Then, starting with the local Chambers of Commerce, identify the companies that are driving that sector. Next, find out what they're doing. When you've done so, ask yourself questions about how your product or service stacks up. Do you have an edge in performance or price? Are there empty niches you can fill? Or is there a possible partnership here?

If "yes" is the answer to questions like these, consider a prospecting trip to the area. You can get a lot of help with this from the Canadian Trade Commissioner Service. Consult their web site (infoexport.gc.ca) before visiting and find out details such as information on local market conditions.

Borderline issues

To penetrate any region, of course, you have to deal with the border, so be sure you have the right tariff classification for your product. Also, don't assume that your product is free from U.S. duties under NAFTA rules. Even if you bought all its components and materials here, it may still not qualify as a product of Canada, so check to make sure.

On another front, while the U.S.-Canadian tax treaty covers federal tax issues, it doesn't affect U.S. state tax regimes. Depending on what you're exporting, state taxes can be of critical importance, so make sure you know how they affect you.

Finally, remember that the U.S. can be a very risky export market. Don't bet your company on the ability or the willingness of a customer to pay you. Carry out your due diligence before you make the deal and consider getting Accounts Receivable Insurance from Export Development Canada, just in case. Nourished by this kind of care and preparation, your export business can only grow. ■

Who to Contact

Canadian American Business Council: www.canambusco.org / 1-202-496-7340

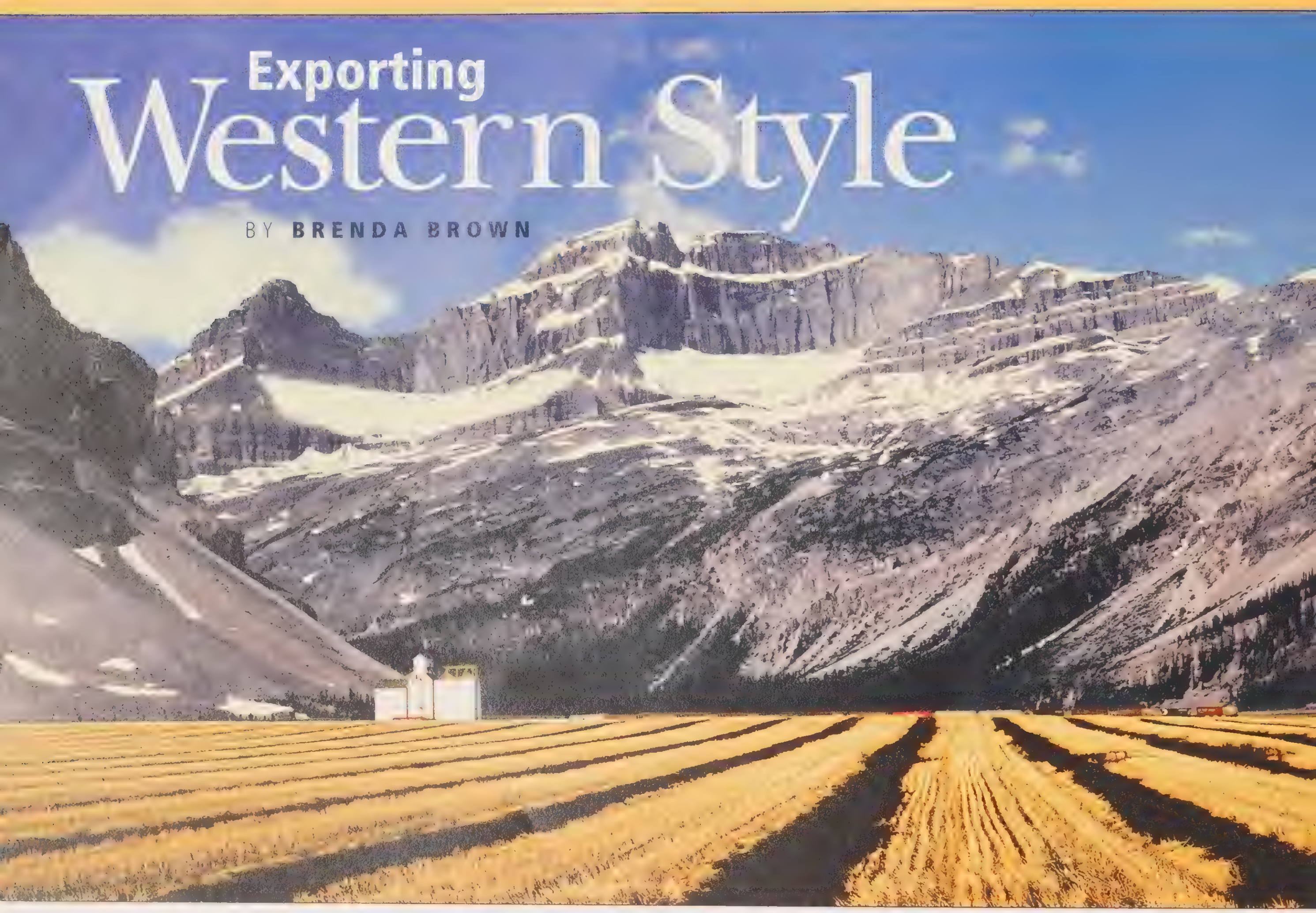
Canadian Trade Commissioner Service: www.infoexport.gc.ca / 1-800-551-4946

CCRA Customs Tariffs: www.ccra-adrc.gc.ca/customs / 1-800-461-9999

Export Development Canada: www.edc.ca / 1-866-283-2957

U.S. Chambers of Commerce: www.uschamber.com / 1-800-638-6582

International Trade Centers: www.itc-cci.gc.ca / 1-888-811-1119



Exporting Western Style

BY BRENDA BROWN

From rolling fields and rushing rivers to the majestic Rockies, Canada's western provinces are as diverse and vibrant as the people themselves. Raised in the true western spirit where warm hospitality and taking risks are as natural as breathing, the provinces of Manitoba, Saskatchewan, Alberta and British Columbia still lure young Canadians with the promise of adventure and a place where you can make your dreams come true.

Today, that fierce entrepreneurial spirit is alive and well as the provinces build from a rich resource-based economy to embrace new technologies and new ways of doing business.

The relative prosperity of Western Canada still relies in large part on exporting its rich natural resources to other parts of the world. The economic performance of many service and downstream processing industries, along with the business and retail activities of many communities and rural areas, is closely linked to the major natural resource sectors in the west.

British Columbia, for example, which is Canada's gateway to the Pacific Rim, is facing a difficult economic transition as it copes with major biological, environmental and trade-related challenges in the fishing and forestry sectors. In Alberta, reliance on the energy industry brings mixed blessings. When prices are low, the province faces economic hardship and the challenge of coping with a huge number of unemployed workers. In addition to the price instability, the industry faces new and fundamental environmental challenges in meeting commitments under the Kyoto Accord.

In Saskatchewan, along with parts of Alberta and Manitoba, a long-standing reliance on an agriculture sector facing massive international challenges, combined with unpredictable moisture conditions, has placed a large part of the sector in peril. Manitoba is the most economically diversified of all western provinces. But the natural resource industries of mining, agriculture and hydroelectricity production are still important contributors to an economy that is being challenged to reduce its reliance on traditional manufacturing industries such as bus manufacturing, furniture and garment production and food processing.

"Although the resource sector remains the foundation of the western Canadian economy, there is a lot of new activity in a broad range of knowledge-based sectors," says Neil Kirkpatrick, a senior economic policy analyst with Western Economic Diversification Canada (WD). And WD is playing a key role in support of innovation in the West – last year, almost 60 per cent of project approvals were in this important sector. Key priorities for WD are life sciences, including biotechnology and health industries; information technology, including new media, tele-health and wireless; and other technologies such as fuel cells, nanotechnology (a manufacturing technology that will make most products lighter, stronger,

cleaner, less expensive and more precise) and climate change technologies.

"Making that shift to a knowledge-based economy won't be easy or fast," says Lewis Megaw, EDC's vice-president of Western Canada. "To address the unique needs of the West, we've set up offices in most major centres and developed key partnerships with provincial and federal governments, and the financial community, so that exporters have access to local trade experts and to the financial support they need."

Each of these EDC representatives are highly skilled in helping exporters access the capital, insurance and bonding that they need to grow their businesses globally.

"The challenge is to get right down to the grassroots, understand what each business needs to succeed. What they don't need is to be international trade experts. This is the know-how that we bring to the table with more than 50 years experience in the business of helping our customers to manage their export risks," adds Megaw.

The signs are encouraging. Traditional industries are making progress in becoming more productive and innovative and new industries are being created.

British Columbia is now home to world-leading clusters in fuel cell technology and new media technology. Alberta's innovative oil sands extraction and processing industry may result in a nationally secure supply of oil as long as it continues to be a required energy source. A downstream petrochemicals industry continues to make an important economic contribution, while new investments in nanotechnology, genomics (new life science which will transform medicine, agriculture, and engineering) and proteomics (the study of all the proteins produced by cell type and organism) are turning Alberta's universities into international leaders in these new age technologies.

As well, Saskatchewan is now home to one of the world's leading subatomic particle accelerators. When combined with the already well-established biotechnology and agricultural research facilities, the province is becoming an increasingly important source of innovation and economic contribution.

And exports, an important indicator of innovation and growth, are on the rise. Manitoba's exports are expected to rise by five per cent in 2003 (five per cent in 2004); Saskatchewan by five per cent (two per cent in 2004), Alberta by 19 per cent (three per cent in 2004); and British Columbia by seven per cent (six per cent in 2004).

A key to economic growth and job creation is the cultivation of the small business community. Small- and medium-sized businesses account for about 50 per cent of all jobs in this region, which is approximately five per cent higher than the rest of the country. This is partly due to the family-owned farms in the West that are counted as small businesses.

"There are many challenges facing the small business community here," says Catherine Barclay, a WD senior business officer. "Despite the large number of people employed through small businesses, this sector accounts for a small share of total economic output, and an even smaller share of export activity. Small businesses have special needs when it comes to exporting, hiring skilled labour, adopting new technologies, obtaining the capital necessary for starting and growing, and developing marketing and management skills. These are all areas that companies need to develop to succeed in today's global economy."

Of particular importance, she adds, is exporting. WD, EDC and other provincial and federal partners are focused on working together and helping companies acquire the skills, resources and research needed to expand their businesses. "I'm always astounded by the rich diversity of goods and services that are exported, but it is clear that this is something that needs to be encouraged. Time and resources are a factor. Many companies don't have enough of either, so at WD, we are playing a more active role in both of these areas, helping them to find people to do market research and working with companies so that they can become better exporters."

Much of this involves using the resources that are already available through institutions such as EDC and Team Canada and their provincial counterparts.

"There are a tremendous amount of government resources available at the national, provincial and local levels," concludes Megaw. "We are working together to make sure that companies can access the support they need when they need it. This united front is also imperative as we analyze and act as advocates to deal with such issues as softwood lumber and agricultural subsidies."

OceanWorks Internationa

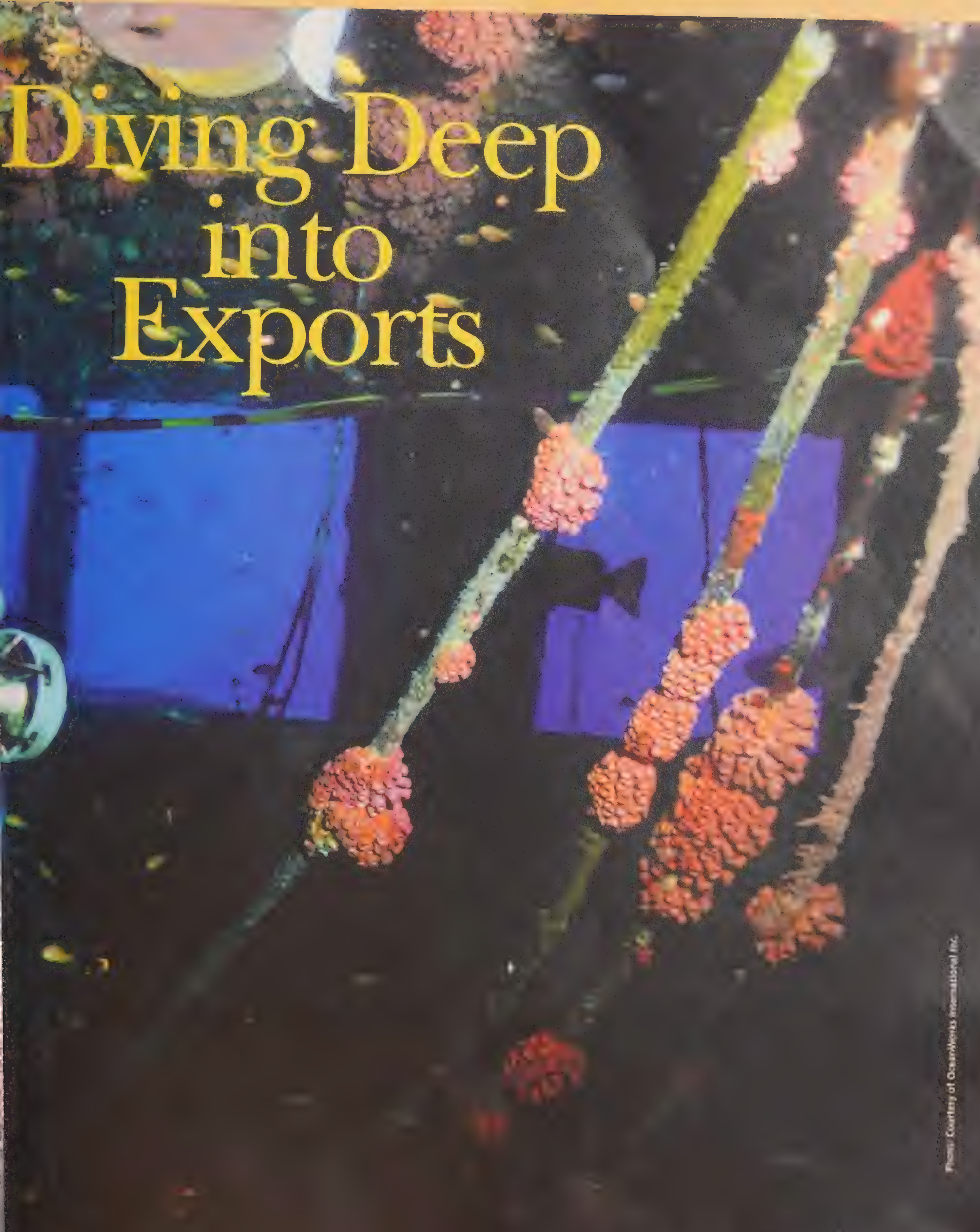
BY **IAN M. CLARKE**

As a recreational activity, deep sea diving conjures up visions of other-worldly discovery and adventure. Commercial diving, although less prominent than its recreational cousin, often faces greater challenges and dangers.

Commercial diving in North America has existed for more than 170 years, its progress highly dependant on technological innovations. The design and manufacture of underwater work systems and equipment is a specialized field, requiring substantial research and development. As an almost alien environment, the subsea landscape demands unique engineering solutions.

OceanWorks International Inc., a privately held U.S. company headquartered in Houston, Texas, with a wholly-owned Canadian subsidiary based in North Vancouver, B.C., is a recognized world leader in the fields of atmospheric diving and submarine rescue systems. Founded in 1986 as International Hard Suits Inc., the company has since passed through a number of ownership changes, emerging in 2001 as OceanWorks International.

Diving Deep into Exports



Photos Courtesy of OceanWorks International Inc.

In the competitive subsea market, OceanWorks distringuishes itself by offering unique technologies.

Photo: Courtesy of OceanWorks International Inc

Of sales and competition

The market for subsea products is international in nature. "In fact, almost 100 per cent of our business is exports," says Glen Viau, OceanWorks' sales and commercial manager. "The first contract the company ever had was with a Japanese commercial diving operation." Although OceanWorks provides products to the oil and gas and submarine telecommunications industries, Viau says its major client is the military.

For Canada's ocean technologies sector, domestic and export competition comes from the United States, France, Germany, Norway, Japan, Sweden, Russia, Italy, Australia, the Netherlands, Denmark and the United Kingdom. These countries often maintain barriers to market entry by foreign-owned companies. When market entry is achieved, it usually involves a strategic alliance with a firm in the targeted country.

Domestic organizations consist of a few large companies and many small- and medium-sized firms. A significant portion (some 90 per cent) of their goods and services are exported internationally. About 500 Canadian firms and 70,000 employees are involved in operations related to ocean technologies. British Columbia and the Atlantic provinces are home to approximately 47 per cent of these companies, while 45 per cent are located in Ontario and Quebec.

Research and development is a core activity for companies involved in ocean technologies, accounting on average for 30 to 50 per cent of annual expenditures. To research, develop and test equipment, OceanWorks maintains a 2,300 square metre office/shop facility in Vancouver, along with a 300 square metre office/shop facility in Houston. The company also offers a range of engineering design services, including mechanical, structural, hydraulic, control and power systems.

The success of innovation

In the competitive subsea market, OceanWorks distinguishes itself by offering unique technologies. "One of our product lines is for submarine rescue. The Royal Australian Navy's Remora submarine rescue system, for example, presented a particular challenge: How do you get people out of a sub sitting at an extreme angle? Our solution was to develop and patent a technology – the articulated mating skirt – and it has turned into a significant piece of our business," says Viau.

Photo: Courtesy of OceanWorks International Inc.

A key ingredient in any submarine rescue mission is to put diving assets on the scene as soon as possible, running all possible rescue scenarios before the rescue vehicle arrives. Several leading navies, including those from France, Italy and Russia, use OceanWork's Atmosphere Diving System (ADS) to perform rapid assessment and scene preparation tasks.

Another element is to supply the disabled submarine with emergency life support stores (ELSS) until a rescue mission can be mobilized. OceanWorks has been involved in developing ELSS pod-posting systems with both the Canadian and U.S. navies, and is currently developing ELSS with others.

Bonding relationships

For those who develop equipment to address deep sea applications, significant hurdles also exist above the water. Aside from the struggle of encouraging organizations to adopt new technologies, Viau sees financing as a major challenge. "Working capital requirements of international military contracts can be restrictive and often require bonds." With support from EDC, OceanWorks had its bank issue Advanced Payment Bonds, Performance Bonds, and Warranty Bonds.

It is forecasted that increased networking and cooperation among public and private ocean technology interests across Canada will increase international recognition, market penetration and ensuing industry expansion. In addition to military and oil and gas applications, new market opportunities are emerging internationally with growing environmental awareness, fostering regulatory regimes in coastal zones.

For OceanWorks, with an established record of innovation, the future is indeed bright, no matter how far down it travels. ■

COMPANY PROFILE

Business: Oceanographic industry
Locations: North Vancouver, Houston
Established: 1987
Employees: 70
Exports: 98 per cent
Export Markets: United States, Europe, Asia, Australia
Contact: www.OceanWorks.cc

Ocean Technologies

BY IAN M. CLARKE

Export outlook

There are more than 500 ocean technology firms in Canada, located mostly in the Atlantic provinces, British Columbia, Ontario and Quebec. A typical firm employs 10 to 20 people and generates sales on average of $100,000 to $120,000 per employee.

Canada's ocean technology companies have a solid international reputation for producing quality custom products for niche markets, and exports represent 95 per cent of sales activity for some firms. Products and services include underwater vehicles, coastal management technology, remote sensing and satellite data analysis.

Domestic and export competition comes from the U.S., France, Germany, Norway, Japan, Sweden, Russia, Italy, Australia, the Netherlands, Denmark and the U.K. These countries maintain barriers to market entry by foreign-owned companies. When market entry is achieved, it can involve a strategic alliance with a firm in the targeted country.

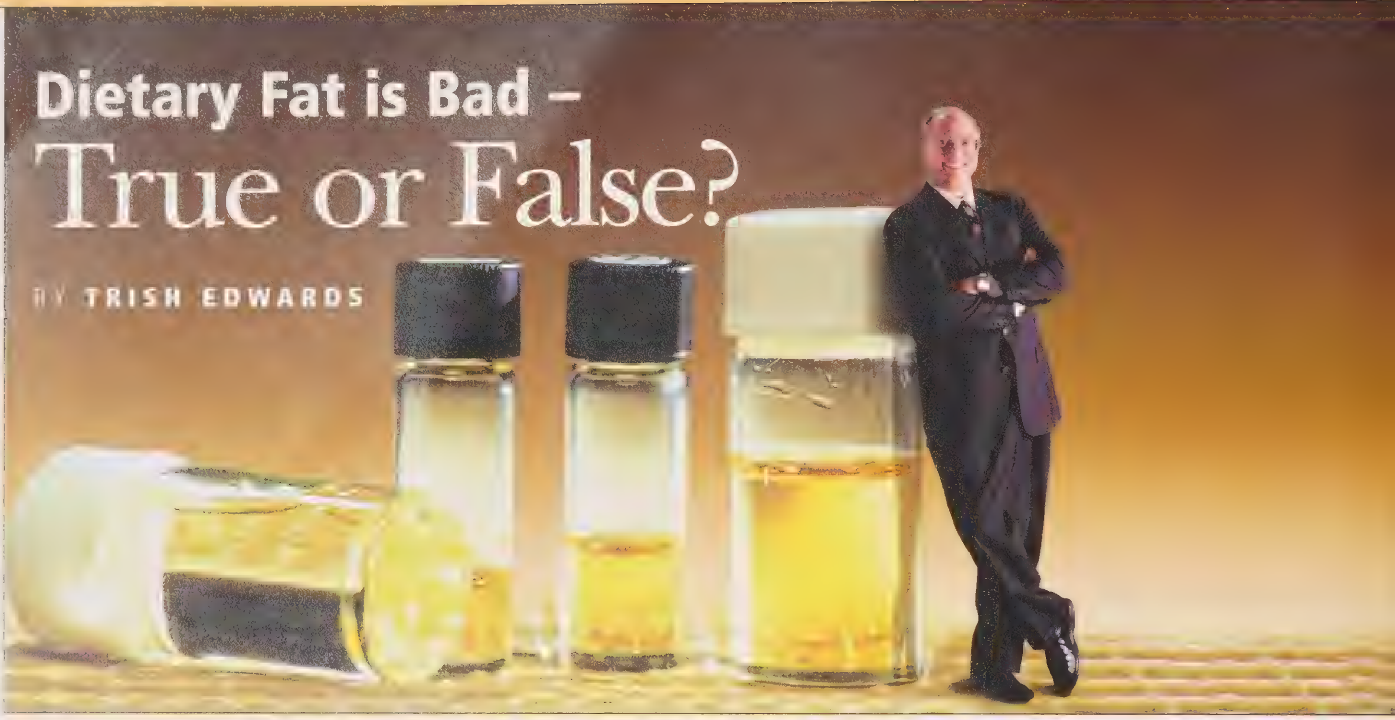
Top firms from competing countries often present a unified approach, combining government participation, private companies and university research.

Opportunities

Competing countries have strong domestic purchasing programs through naval procurement or other applications, allowing export potential to remain strong. In addition, these countries often use targeted aid or preferred financing arrangements to secure contracts.

New market opportunities are emerging internationally with the growing environmental awareness that is fostering regulatory regimes in coastal zones. The European Union, for example, has regulatory directives and is implementing the polluter-pay principle; stiffer regulations have been brought about by North American Free Trade Agreement.

New markets are also emerging with the obligations imposed on countries that have laid claim to their offshore regions as Exclusive Economic Zones (EEZs). This means managing them in accordance with United Nations requirements.



Dietary Fat is Bad – True or False?

BY TRISH EDWARDS

Photo: Courtesy of Bioriginal Food & Science Corp.

False, according to Rick Kulow Jr., president of Bioriginal Food & Science Corp., the world's leading supplier of a range of oils rich in essential fatty acids (EFAs) such as flax, evening primrose, borage, black currant, pumpkin and fish.

While some fats – saturated and trans-fatty acids – do contribute to cardiovascular disease, others are critical to the proper functioning of the body's cells and the maintenance of good health.

"Good fats, such as polyunsaturated fats, work at the cellular level, helping to keep cells more fluid, allowing valuable nutrients in and keeping harmful toxins out," explains Kulow. "Essential fats are also needed to produce hormones and absorb vitamins. But good fats, EFAs, like other essential vitamins and minerals, can't be manufactured by the body and have to be obtained through your diet. That's often tough to do in today's fast-paced, fast-food world."

Research also shows that EFA supplementation holds promise for the treatment of cancer and heart diseases, as well as skin ailments such as psoriasis and eczema.

Bioriginal has focused on science and clinical research since the decade-old union of its predecessor company, PGE Canada Ltd., with Vitality Health and Science Corp., an organization formed earlier by the Government of Saskatchewan to work with industry on opportunities for the health food industry.

Bioriginal's scientists, who developed and patented manufacturing methods for processing dietary supplements made from seed oils, remain closely linked to the University of Saskatchewan and with the broader North American scientific community. Indeed, the company has received numerous government and industry awards over the years for entrepreneurship and research.

Bioriginal's core market is the health and nutrition industry, and its products are found in virtually every health food store in North America and in every pharmacy in Canada. Other key markets are the U.S., Europe and Japan. The company has customers across six continents, and some 85 per cent of sales come from exports. While Bioriginal deals primarily with branded manufacturers in the areas of nutritional supplements, cosmetics, pet and veterinary products, pharmaceuticals, and functional foods, it also sells to every level of the supply chain.

When asked about Bioriginal's success, Kulow says you never really turn that corner, that there's always more you can do to achieve even greater success. "If I had to pinpoint when I began to have the greatest confidence in Bioriginal, it would be when we finally assembled the fantastic team we have today," he says.

He points to their strong board of directors as well as to the company's management team including: Don McGimpsey, vice-president of sales (the first employee Bioriginal hired and still considered by Kulow to be the best in the industry); Jerome Konecsni, vice-president, corporate development; Joe Vidal, chief financial officer and chief operating officer of the company's North American operations; Jan Summerfeldt, director, administration and human resources (also with direct line responsibilities in operations); Shelagh Jamieson, director of marketing; and, Marcia Black, head of customer service.

"We have incredibly talented and hard-working employees – they're a tremendous resource. Working together, they're the ones who pull it all off."

Kulow is equally enthusiastic about EDC, and advises exporting companies to work closely with its representatives in Canada and abroad.

> *"Good fats, EFAs, like other essential vitamins and minerals, can't be manufactured by the body and have to be obtained through your diet."*
>
> — *Rick Kulow Jr.*
> President, Bioriginal Food & Science Corp.

"EDC performs a really valuable function," he says. "For example, we had a potential account in the U.S. a few years back – a single owner of a network of companies – where it was impossible to assess the credit risk. EDC had the sophistication and know-how required to pierce the company's veils and get us the information we needed to go forward confidently. EDC is very effective at this kind of thing, and without their help, Bioriginal wouldn't be where it is today."

Does Kulow have any other tips for exporters? "Visit potential customers face to face – don't just meet them at the airport or at a hotel. Go to the company's place of business and assess its cleanliness and the calibre of people that work there. Make sure you know exactly who you're dealing with. It will save you endless time and headaches if you follow this advice," he concludes.

COMPANY PROFILE

Business: Supplier of essential fatty acid oils and powders
Locations: Saskatoon, Winnipeg, Toronto, Montreal, Netherlands, England, China
Established: 1993
Employees: 76
Exports: 85 per cent
Export Markets: six continents
Contact: www.bioriginal.com

HOW AN EXPERT SEES IT

Functional Food and Nutraceutical Industry

BY **ALLISON RODRIGUEZ** AND **PATTI MILLER**

Industry outlook

Functional foods and nutraceuticals are products that are demonstrated to have physiological (health) benefits and/or reduce the risk of chronic disease beyond their basic nutritional functions. Functional foods are similar to conventional foods while nutraceuticals are isolated from a food and sold in dosage form.

Canada has an active, research-oriented functional food and nutraceutical industry. It is estimated that the industry numbers more than 300 companies, from small start-ups to multinationals, with an estimated market size between $1 and $2 billion. Exact industry statistics are difficult to determine because companies are classified from the agriculture and biotechnology categories, all the way through to the food and pharmaceutical industries. Agriculture and Agri-Food Canada is currently working on an industry survey with Statistics Canada to obtain official statistics.

The market is being driven by a growing understanding of the link between diet and disease, aging populations, rising health care costs, advances in food technology and nutrition, and expanding scientific and clinical research validating the effectiveness of functional foods and nutraceuticals in preventing diseases. Disease targets for nutraceuticals include cholesterol reduction, cardiovascular disease, osteoporosis, child development, hypertension, diabetes, gastrointestinal disorders, menopause and lactose intolerance.

Opportunities

Canada's functional food and nutraceutical sector has the potential to grow and capitalize on tremendous global marketing opportunities. Recent estimates of market size are well over US$50 billion. Most of the commodities Canada produces have the potential to be grown and processed into functional foods and nutraceuticals.

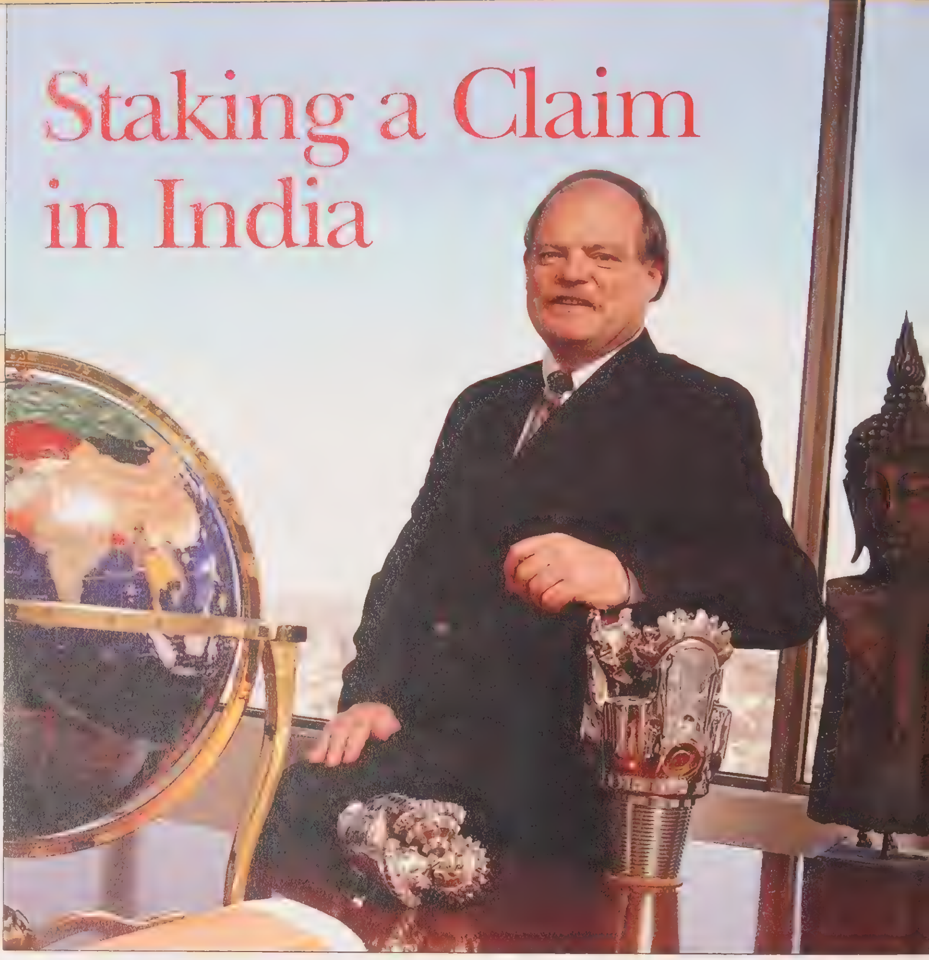
Key issues to watch

- Research efforts are needed across a broad spectrum of scientific, clinical and engineering areas that will support health claims, and encourage the development and commercialization of products, processes and technologies that will give Canada a competitive edge.
- The health benefits and disease risk reduction properties of food components is a growing area of research worldwide, bringing about a high demand for skilled human resources. Current training and recruitment levels may not be sufficient to sustain development of the industry in Canada.
- Although Canada's functional food and nutraceutical industry has been experiencing considerable growth over the last few years, Canada is lagging behind the U.S., Japan, Australia and the United Kingdom. These markets, where health claims backed by scientific evidence have been allowed, are growing. However, there has been some progress in Canada. Health Canada has approved five generic health claims which now appear in *Canada Gazette II* as follows: Sodium and Hypertension; Calcium and Osteoporosis; Saturated and Trans Fat and Coronary Heart Disease; Fruits and Vegetables and Cancer, and; Sugar Alcohols and Dental Caries. Amendments to the Food and Drug Regulations will permit foods to carry diet-related health claims for the first time in Canada. http://canadagazette.gc.ca/partII/2003/20030101 html sor11-e.html

Allison Rodriguez (rodrigueza@agr.gc.ca) is a senior market development officer and Patti Miller (millerp@agr.gc.ca) is an assistant director at Agricultural and Agri-Food Canada (www.agr.gc.ca/food/nff).

Niko Resources: Staking a Claim in India

BY TERRI-SUE BUCHANAN



When the Gujarat State government in India came to Canada looking for a partner in the oil and gas business in 1994, they brought to the table what could be considered a rather small venture.

But where larger European multinationals didn't investigate further, Robert Ohlson, president and founder of Calgary-based Niko Resources Ltd. did. When Ohlson actually took the time to 'look at the science' he quickly realized this was much bigger than what government officials in India thought. In fact, Ohlson believes the field might eventually reach one trillion cubic feet.

That's a lot of gas.

This eventually led to Niko's first production sharing contract for five marginal fields in 1994, which they operate with approximately one-third ownership.

After years of competition in the domestic oil and gas sector, Niko began pursuing the market in India in 1992 when that country first decided to open up the industry to foreign investment. Having worked overseas for half of his career, Ohlson had already developed some key relationships, which turned out to be good groundwork when the Gujarat people came to visit.

With a great deal of government support and a Performance Security Guarantee from EDC (an essential part of the loan process on the international market, according to Ohlson, who adds that it's virtually impossible to borrow from Canadian banks for investment in India), Niko has since expanded considerably in the region and is making inroads into Bangladesh.

In fact, Niko is coming off its best year financially due largely to a huge natural gas discovery of more than seven trillion cubic feet off India's East Coast with partner Reliance Industries, one of India's largest conglomerates. Niko owns 10 per cent of the project, and while they don't operate the field, they're proud of their role in discovering the largest gas field ever in India, and perhaps the largest discovery in the world in the last three years.

With this find as well as other properties where production is expected to grow substantially, Niko's shares have tripled in the past year, making them one of the best performers on the Toronto Stock Exchange for that period.

Niko is the only Canadian, in fact the only North American company operating in oil and gas in India, a sector that is not hugely competitive. Enron was there, but was bought out by British Gas after their much-publicized demise. There are a few other smaller companies, but the rest of the players are primarily indigenous.

The biggest challenges Canadian operators in this region face are the bureaucratic tangles. "Cutting through this bureaucracy and getting to the action is the biggest hurdle," says Ohlson, who is still struggling to close a deal in Bangladesh that they have been pursuing for five years. While the deal is imminent, it was taken off the table a few years ago when the existing government opted to wait until after an upcoming election to avoid any perception of favouritism. When that government subsequently lost the election, Niko was forced to start over with a new administration.

"Otherwise, the region is one that promises a great deal of growth," says Ohlson, despite political instability in the region, including recent violence with Pakistan in the dispute over Kashmir, and ongoing religious clashes. While flare-ups can affect Niko stock, they never affect daily operations in what Ohlson considers to be a very safe and secure environment.

> *"Cutting through bureaucracy and getting to the action is the biggest hurdle."*
>
> *— Robert Ohlson*
> President, Niko Resources Ltd.

And while some may be concerned that continuing tensions in the Middle East may impact the country's overall economic growth, Ohlson is not concerned. India is the world's sixth largest energy consumer with an estimated two million bbl/day of oil consumed in 2002, roughly 60 per cent of which is imported. Other than oil and gas, India is largely self-sufficient, consuming 95 per cent of its own product.

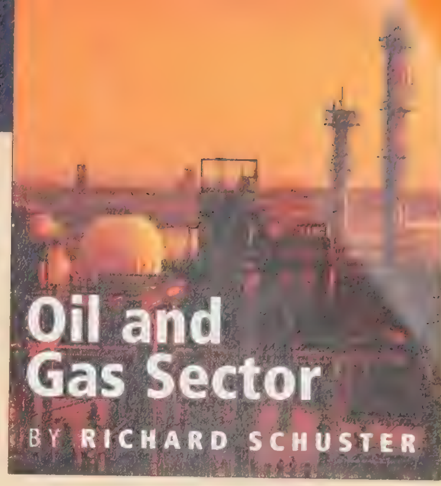
"They're not a big exporter and subsequently don't rely on imports and exports to a great degree," says Ohlson, which in his opinion makes India one of the countries least affected by economic cycles and war.

Given that Niko sells gas on long-term fixed-price gas contracts, not on market price, and that their price is not adjusted to world oil prices, Ohlson is confident that Niko will successfully ride this out. ■

COMPANY PROFILE

Business: Oil and gas exploration and development
Location: Calgary
Established: 1987
Employees: 120
Exports: 99 per cent
Export Markets: India
Contact: www.nikoresources.com

HOW OUR EXPERTS SEE IT



Oil and Gas Sector

BY RICHARD SCHUSTER

Export outlook

In 2002, natural gas accounted for 38 per cent of Canada's total energy exports, while petroleum's share rose to about 56 per cent. While the volume of energy exports rose, prices were generally weaker throughout the first half of the year. Total energy exports slipped almost 14 per cent to about $50 billion, confirming a pricing loss for 2002 as a whole.

The impact of a change in energy prices generally takes about three to six months to filter through to export earnings. Accordingly, energy sales were significantly weaker in 2002 compared with 2001. However, the price recovery that took hold by last September will help deliver a much better performance for Canadian export earnings this year.

Overall, EDC expects energy exports to rise a robust 22 per cent in 2003, driven by a combination of increased sales volumes, especially to the U.S., and higher prices. That said, the value of Canada's energy exports are expected to drop by nine per cent in 2004.

Opportunities

In 2004, an improved global growth picture will help boost volume sales, but the price impact will dominate again most notably in petroleum and natural gas sales.

EDC's Economics Group expects the price of natural gas to average about US$5.20/mmbtu (millions of british thermal units) this year as market supply remains fairly tight, marking a 50 per cent average price hike over last year. Indeed, there is growing speculation that despite the fall off in demand in the spring and early summer, production may be insufficient to restock the natural gas in storage in order to meet next winter's heating demand. EDC anticipates Canadian natural gas export sales should approach $27 billion in 2003, a 40 per cent increase on 2002 sales. Fortunately for the non-oil sectors of the economy, prices should come off to about US$4.50/mmbtu in 2004.

Canadian petroleum exports rose six per cent in 2002, powered by increased volume sales, while on average, petroleum export prices were fairly flat for the year. EDC anticipates that Canadian petroleum exports will post an impressive 11 per cent gain this year according to our base case of US$28/bbl for West Texas Intermediate (WTI), followed by a 14 per cent drop in 2004. It should be noted that Canadian petroleum export earnings will be largely impacted by price swings in both years.

Key issues to watch

The war in Iraq along with the disruption of heavy crude shipments to refineries in the U.S. gulf coast had combined to help support a six-month rally for the price of natural gas. Some utilities and larger commercial facilities in the U.S. can use either natural gas or refined heavy crude for power generation, so a heavy crude shortage can put upward pressure on natural gas. Overall, U.S. natural gas in storage had dropped off dramatically. By early March 2003, it stood at 721 billion cubic feet – almost 50 per cent below the five-year average level and nearly 60 per cent lower than a year ago.

Natural gas supply in storage has dwindled as well, due to increased demand. The spot price of natural gas (Henry Hub) shot to a record high of US$19.50/mmbtu in late February – roughly eight times the average price over the preceding 12 years (US$2.48/mmbtu) and almost four times the level prevailing at the beginning of 2003. A quick start to the winter heating season and cooler than average temperatures have created sizeable price pressures. Last year's heating season (2001-2002) was 18 per cent warmer than average in the U.S. Northeast – thereby allowing significant oversupply to drive the price of natural gas lower, while at the same time creating a decline in the active rig count. However, this year's heating season (2002-2003) not only started earlier than usual, but has been colder and has lasted longer. ■

Richard Schuster (rschuster@edc.ca) is a senior economist with EDC's Market and Economic Analysis Group.

Kraus Global Inc:
Reducing Emissions... Increasing Profits

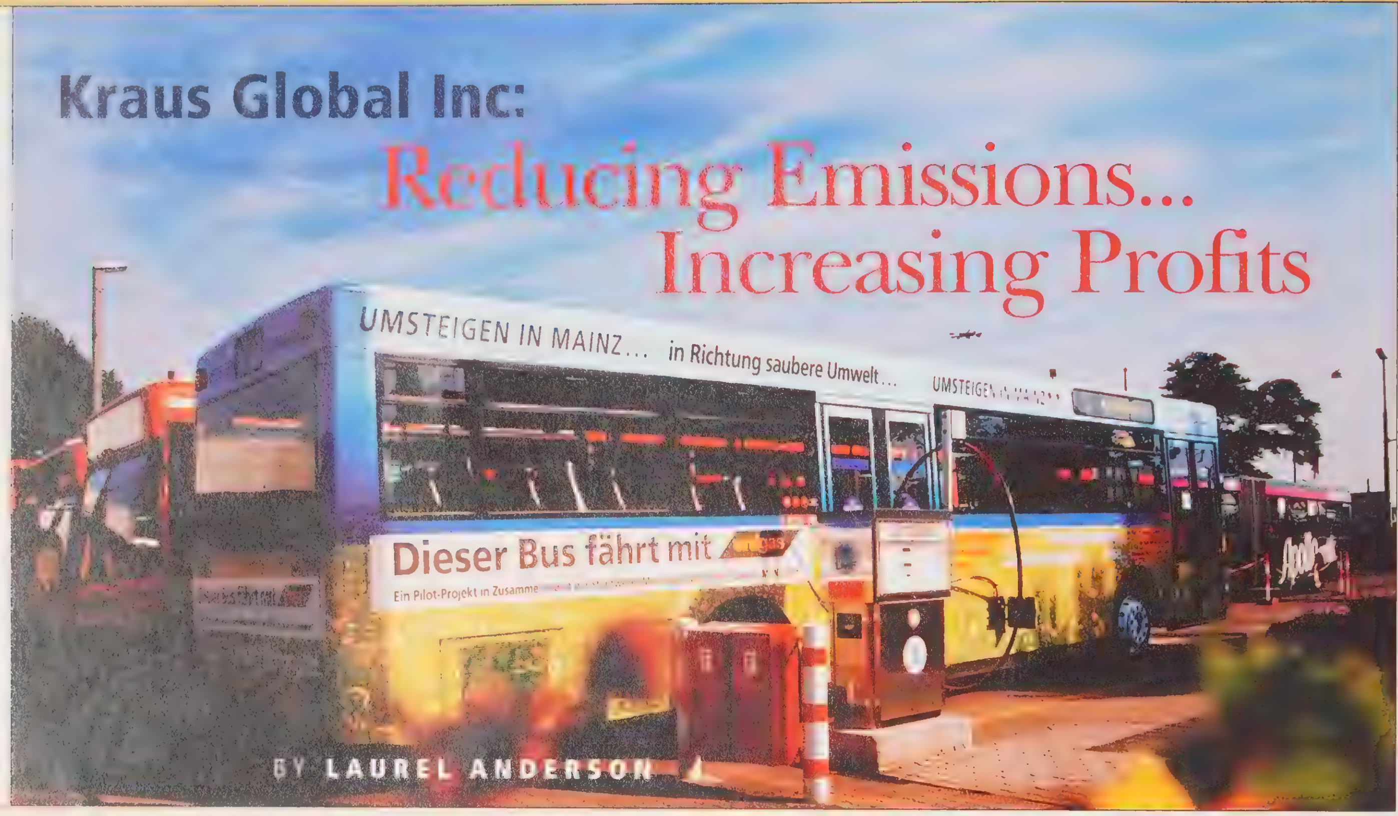


Photo: Courtesy of Kraus Global Inc

BY LAUREL ANDERSON

What possible connection could there be between the Queen of England's Rolls Royce, city buses in Mexico City and cars driven by German citizens? The answer: all of these vehicles are refueled using technology designed and manufactured by Winnipeg-based Kraus Global Inc.

Kraus is a manufacturer and designer of refueling systems for cars, trucks and buses that use alternative fuels. "Kraus puts the whole system for alternative fuels together, including the gas line, compressors, and so on, for storing alternative fuels or to fill directly into vehicles," says Ross De Visser, Kraus' vice-president and chief financial officer.

This includes fuels such as the liquefied petroleum gas (LPG) that keeps the Queen's Rolls Royce running smoothly and the compressed natural gas (CNG) needed for the buses of Mexico City. Kraus' technology has also enabled it to build the world's first retail-style compressed hydrogen dispenser at the Munich airport in Germany.

In the highly competitive environment of alternative transportation fuels, Kraus stands out as a global leader, operating on every continent except Australia. What contributes to their success? "Being able to deliver to the customer's requirements," says De Visser. "Our engineers design to our customers' exact specifications."

To customers around the world, Kraus can deliver turnkey systems or a variety of components. They don't just drop off the systems either. Kraus has applications engineers who work on-site for station commissioning, from installation to field performance testing. Kraus further supports its systems with technicians to provide on-site field and warranty service and training programs to customers' staff.

Quality is also key. Kraus' compression and dispensing equipment is rigorously tested for operation under all conditions at the largest CNG/LPG test facility in the world, located in Manitoba.

Although the company was only formed in May 2002, it was created following the management purchase of Kraus Group Inc.'s assets, a company which was originally founded in 1962. Kraus' experience in alternative fuels stretches back to 1990.

One of Kraus' longstanding proprietary products is its Micon sequencing head. When you roll into your local filling station, it's Kraus' Micon head that takes the readings to tell you how much fuel you bought and at what cost. Originally designed and still in use for gasoline pumps, the Micon head is also found in more that 80 per cent of the CNG dispensers in North America. The product is such a standard, even Kraus' competition buy it.

In an age where people are increasingly concerned about air quality, interest is also growing around what Kraus has to offer. For example, as the general population in Asia gets wealthier, and the vehicle-to-population ratio increases, demand for the company's products will increase as governments and citizens seek ways to curb pollution in densely populated urban centres. Another driver for

> *"We have the right products for the right time and the expertise to bring the two together."*
>
> *— Ross De Visser*
> Vice-President and Chief Financial Officer, Kraus Global Inc.

Kraus is energy security. "There is the growing interest across the United States and Europe to move away from our dependency on oil and gasoline," adds De Visser.

Kraus has accessed a number of EDC products to assist in its global expansion including Bonding, Accounts Receivable Insurance and Pre-shipment Financing. In De Visser's experience, "Some of the challenges all companies face is getting enough financing, making sure you are covered if a problem occurs and, in some cases, providing bonding or letters of surety to buyers who want a guarantee that you will deliver when you say you will. EDC helps us deal with all of those challenges."

What does the future hold for Kraus? "As countries around the world make efforts to reduce emissions, the systems that make alternative fuel options possible will be increasingly in demand. We have the right products for the right time and the expertise to bring the two together," concludes De Visser.

The alternative fuels market is poised to explode into a multi-billion dollar global industry in the next few years and Kraus Global will without a doubt continue to be on the leading edge. ■

COMPANY PROFILE

Business: Design and manufacturing of ground transportation refueling systems
Location: Winnipeg
Established: 2002
Employees: 65
Exports: 70 to 80 per cent
Export Markets: China, Egypt, Turkey, Germany, Mexico, Korea, Chile
Contact: www.krausglobal.com

Alternative Fuel Sector

BY **PAUL STOTHART**

Export outlook

The International Energy Outlook (2002) predicts that energy demand will increase by 1.7 per cent per year from 2000 to 2030 to reach an annual total of 15 billion tons of "oil equivalent." While fossil fuels will dominate global energy use into the future, use of renewables will grow steadily at an average annual rate of 3.3 per cent. It is anticipated that, in the 2020s, the transportation sector will have the single greatest energy demand of all sectors.

Opportunities

While these fields are evolving rapidly, Canada has leading expertise to offer global markets in areas such as engine conversion systems, refueling equipment, and biofuels. Canada is also strong in fuel cell research, although it is important to note that the delivery, dispensing and conversion of hydrogen fuel is not yet cost competitive with existing fossil fuels.

Natural Gas: Engine conversion systems to relatively clean natural gas are seeing increased interest. This is particularly so in South Asia, Western Europe, North America and other regions where domestic natural gas reserves exist and where fleet conversions are growing in number. Natural gas is considered the preferential transition fuel bridging today's high-emission oil and coal sources to tomorrow's potential zero-emission hydrogen energy systems.

Hydrogen: The need for a clean and secure source of energy is generating momentum behind the development of a hydrogen economy – large investments are occurring in Canada, the U.S. and other parts of the world toward this end. The business intelligence firm ABI has predicted that the market for fuel cell vehicles will grow from zero at present to 800,000 by 2012, with Japan and the U.S. projected to lead this market uptake.

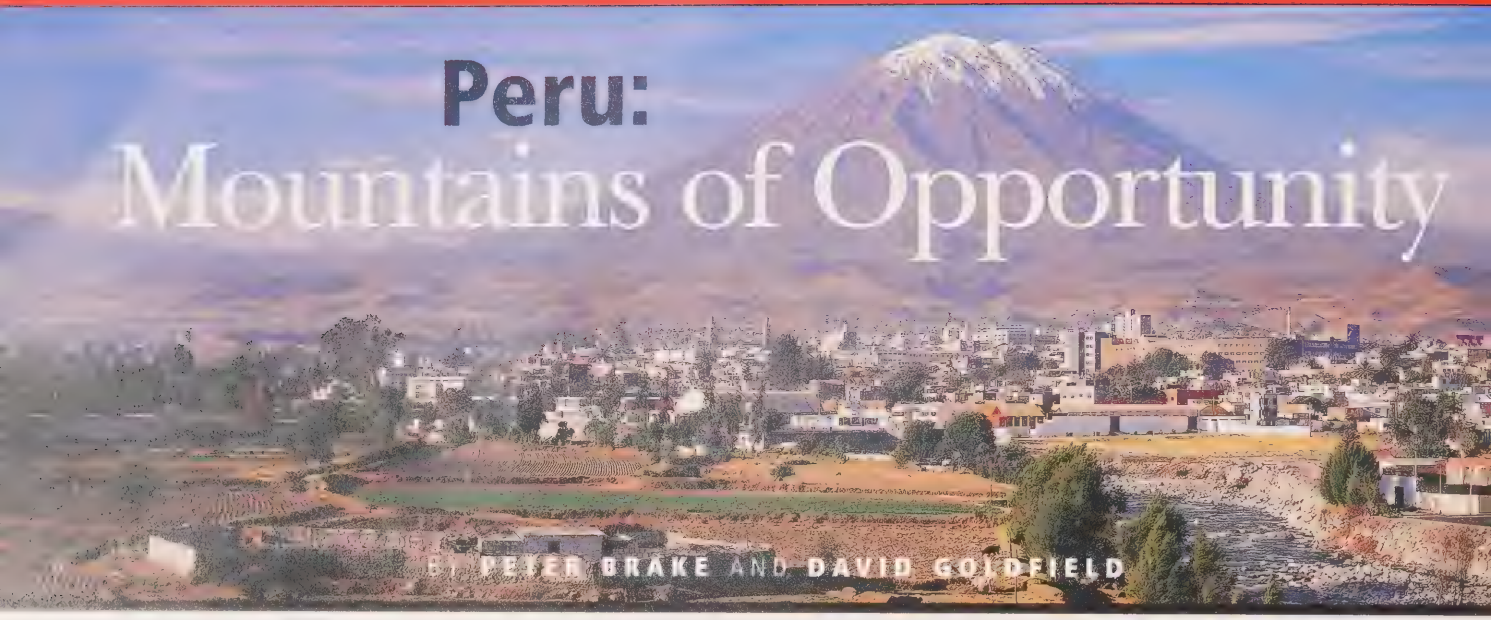
Bioenergy: Bioenergy, which includes biomass and biofuels, offers considerable potential in the medium- to longer-term. There is already significant global demand for bio-energy, including ethanol fuel, although most bioenergy technologies have not yet achieved commercial scale.

Key issues to watch

- The current policy climate in Canada for growth of the alternate transportation fuel sector looks promising. The recent Climate Change Action Plan for Canada produced by the Federal Government aims to increase ethanol fuel use to one billion litres per year by 2010 – to a blend of 25 per cent ethanol in gasoline. The plan sets a target for annual production of 500 million litres of biodiesel, including bio-oil, by 2010 and outlines a set of tools to help the industry reach this goal.
- Ratification of the Kyoto Protocol, combined with regulatory instruments such as the Clean Air Act in the U.S., will provide a significant stimulus in demand for alternate fuels. Global demand for fuel cell products, for example, is projected by Fuel Cells Canada to reach $46 billion per year by 2011, divided into stationary, mobile and transportation energy applications. ■

Paul Stothart (pstothart@edc.ca) is an advisor on environmental and strategic issues with EDC's Business Development Group.

Peru: Mountains of Opportunity



BY PETER BRAKE AND DAVID GOLDFIELD

Peru, straddling the Andean mountains, is a country with strong economic promise, struggling to cast off the legacy of past turmoil and realize its full potential. The strong leadership of Alberto Fujimori in the 1990s allowed Peru to wrestle hyper inflation and guerrilla insurgency to the ground and propel Peru to consistent economic growth throughout the last decade. A lapse into authoritarian rule in 2000, however, threatened to undo all the progress Peru had made and Fujimori was forced to resign. New elections in 2001 confirmed Peru's commitment to democracy, giving a narrow victory to Alejandro Toledo who ran on a transformation platform, promising to extend economic progress and growth to the poorest sectors of Peruvian society.

Peru, a country of 28 million people, stretches along the north pacific coastline of South America. It has impressive mineral resources including copper, silver, gold, oil and gas, and well developed agriculture and fishing sectors. There is some diversification into manufacturing and heavy industry but upgrades to basic infrastructure are required to enable the country to shift to a more developed economic phase.

Canada's major exports to Peru in 2002 amounted to $167 million and included wheat, vegetables, machinery parts, iron and steel products, copper ores, wood and electrical machinery. Canadian companies have played a preponderant role in Peru's natural resource sectors, primarily mining and refining. The Antamina mining project is a majority Canadian investment and is the third largest zinc and seventh largest copper mine in the world, potentially contributing as much as 1.3 per cent to Peru's GDP. Opportunities exist to grow the market for Canadian suppliers of mining equipment, services and technologies.

Peru has one of the world's most liberal foreign investment regimes offering automatic investment authorization and national treatment to foreign investors. Labour is abundant and strikes are rare although there is a noted shortage of highly skilled workers. Privatization is a stated cornerstone of government strategy despite recent public protests which have focused mostly on environmental issues and the loss of jobs attendant to previous privatization efforts. International pressure from financial institutions and the need for revenue from privatization sales will ensure the program continues, but investors should take steps to reassure the public of the widespread benefits of this approach.

Fundamental to future Peruvian economic growth is the establishment of regional free trade through the planned Free Trade of the Americas (FTAA), slated for implementation in December 2005. Tariffs will be eliminated, customs regulations streamlined, and quotas and subsidies removed, effectively creating the largest free trade area in the world. Proponents argue that the FTAA will result in lower prices for Peruvian consumers and open markets to regional trade, benefiting efficient export-oriented Peruvian industry. The drive to create the infrastructure for Peruvian business so that they can take advantage of lowered trade barriers means ongoing pressure to upgrade roads, airports and port facilities, water treatment, telecommunications, power generation and distribution.

The privatization of ElectroPeru offers opportunities to Canadian engineering and consulting companies experienced in hydro power generation and transmission. More than 20 per cent of Canadian exports to Peru are in electrical equipment and components.

Oil and gas exploration activities have increased in recent years with the discovery of major gas deposits in the Peruvian portion of the Amazon basin. Oil recovery, offshore support and exploration technologies are in demand as are pipeline construction and monitoring equipment.

Peru's municipal services are in poor condition and there is considerable pressure to improve them. Immediate priorities are wastewater treatment since untreated waste is currently contaminating a significant portion of Peru's potable water source. Foreign imports have supplied more than three-quarters of the water and waste treatment equipment. The country also lacks significant indigenous capacity in the area of hazardous solid waste management systems. Addressing pressing municipal water and sewage needs means demand for computerized management to control and monitor leakages, billings and thefts.

Key export opportunities

.... Mining equipment and services; oil and gas recovery, offshore support and exploration technologies, pipeline construction and monitoring equipment, hazardous solid waste management systems, general infrastructure projects...

Exporters might consider it a good first step to focus on niche opportunities. The provision of consulting services and basic technology often serves as an introduction of an exporter's ability to provide entire bundled systems of services/technology/equipment. Canada, which is at the leading edge in new environmental assessment, control and remediation technologies, already has a high profile in the Peruvian mining sector. Leveraging this reputation may enable breakthroughs in non-mining sectors.

Peru's business etiquette

The language of business in Peru is Spanish although much of the business community can also conduct transactions in English. Executives tend to be direct and sophisticated. Crime is an issue outside of urban centres and travel between and within centres should not be done at night or alone. Pricing is the most important consideration and the highest demand is for products with reliable basic technology and limited maintenance requirements.

Peru has emerged from a long period of uncertainty and turmoil. It has pent-up demand for development and investment in basic services and infrastructure. The abundant mineral resources of the Andes Mountains also place Peru at the forefront of international mineral development. These factors, coupled with the inherent familiarity and awareness of Canadian goods and services, translate into mountains of opportunity for Canadian exporters. ■

Peter Brake, LLB (peterbrake@rogers.com) is an Ottawa-based freelance writer. David Goldfield (dgoldfield@edc.ca) is EDC's regional manager, International Markets, for Andean and Caribbean.

How our analysts see it

BY **ROD LEVER**

Political overview

Alejandro Toledo's victory in 2001 over former President Alan Garcia was seen as a positive development for foreign investors. However, Toledo made promises during his campaign which are now coming back to haunt him because he can't deliver with existing fiscal resources. His popularity continues to slide dramatically. Congressional elections, held in tandem with the presidential elections, produced a divided Congress that has restricted his ability to implement his agenda. Regional elections held last November further weakened his authority because his party fared poorly and marked a move toward devolution of responsibility for local issues to regional governments. Toledo's greatest challenge will be institutional reform, critical for long-term political stability.

Several groups engage in violence for political ends including the Maoist Shining Path. A civil war between these groups and the government claimed more than 30,000 lives, until they were largely defeated by government counter-insurgency campaigns during the 1990s. While there are signs that a weakened military may be giving rise to increased Shining Path activity, the scale of threat is significantly lower than it was in the 1980s.

Economic situation

Already in 2003, the country has seen two successful international bond issues and re-entered the local bond market. Exports and tax revenues are maintaining a positive trend and the country's bond spreads are nearing 400 basis points above U.S. treasury. Supported by exports and improving fiscal accounts, the short-term outlook for Peru remains quite favourable, but as we move into the medium to long term, the outlook is best characterized as one of cautious optimism.

Strong and sustained economic growth is needed to reduce the country's poverty and scale down its external debt. Last November, 25 regions voted for the first time on the establishment of regional presidents/councils. This marks the beginning of fiscal decentralization which is expected to lead to mounting demand for government spending and could threaten a trend of improving fiscal accounts.

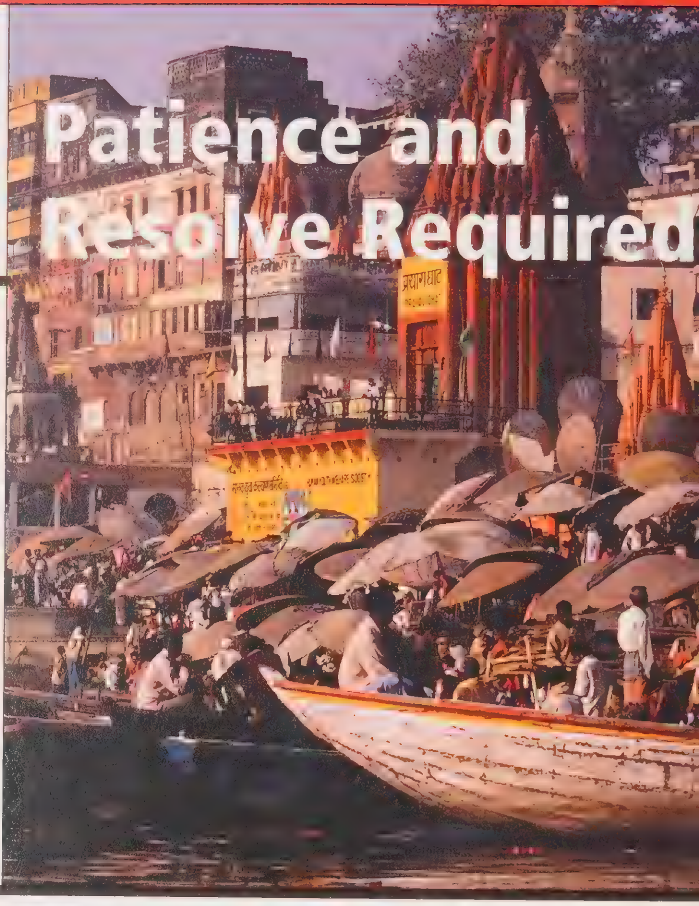
Key issues to watch

- Whether Toledo will survive given his unpopularity. A possible scenario is that greater responsibility is taken on by the Cabinet, led by Prime Minister Luis Solari.
- A protracted economic slowdown could cause widespread disillusionment with the state of Peruvian democracy, fostering renewed instability.
- There is significant resentment toward the mining industry in many areas of Peru; whereby local communities expect an increasingly equitable share of mine revenues and tangible benefits. This may be a growing threat that investors need to watch more closely. ■

Rod Lever (rlever@edc.ca) is a political risk analyst with EDC's Political Risk Group.

India: Patience and Resolve Required

BY **PETER BRAKE** AND **ANIS KARIM**



India, one of the oldest civilizations in the world, is also regarded as the last great emerging market. Notwithstanding massive overpopulation and extensive poverty, India also possesses unprecedented cultural richness and a strong desire to excel. Impressive economic growth of six per cent annually since the early 1990s has been effective in reducing the rate of poverty among India's one billion inhabitants by as much as 10 per cent. More substantive progress will require annual growth rates of eight per cent or better, an objective fully within India's ability according to economists and the Indian government.

The development of a world-class information technology sector in the late 1990s, together with a wave of economic reform in the same period, has contributed to increased optimism about India's future growth. A burgeoning middle class, distinctively entrepreneurial and bent on propelling India forward, is keen to see restructuring and economic liberalization continue. Optimism is tempered, however, by the realization that the task of extending basic services to hundreds of millions of the country's citizens requires patience, resolve and enormous long-term investment.

The Canadian advantage

Canada exported $636 million worth of goods to India in 2002, with room for substantial improvement. Comparable legal systems, English as a common language of business, and the wealth of available knowledge on Indian culture and customs garnered through extensive Indian immigration to Canada over the years provide advantages to Canadian exporters. Enormous opportunities exist to participate in the accelerated development and upgrading of India's infrastructure and technological capacity. Power generation and transmission, railway and road development, oil and gas, pulp and paper, environmental technologies, geomatics and telecommunications are just some of the sectors looking to other countries for products, services and technologies.

India is the world's seventh-largest market for electric power consumption with demand growing at 10 per cent annually. All communities are slated to be electrified by 2007. Commercial opportunities abound in power generation and transmission, modernization and renovation of older power facilities, development of small and mini hydro projects and alternative energy. Some of Canada's most notable engineering and consulting companies, key utilities and equipment supply firms are currently doing business or actively pursuing leads in India. Substantial Canadian involvement in the Chamera-I and II and Idukki hydro projects are showcasing Canada's expertise. A line of credit has been put in place to support Canadian companies in the market.

The Indian government has recognized that enhancing domestic energy production will require investment of $150 billion over the next 10 to 12 years. In pursuit of this goal, liberalization and privatization policies have been initiated to encourage private and foreign investment in oil and gas exploration, distribution and sales. Opportunities for Canadian exporters exist in geomatics (see related story, page 36) and the supply of equipment and services to domestic and multinational oil companies. High-resolution 3-D seismic surveys, high-tech directional drilling, advance recovery techniques and deep sea drilling expertise are all being sought. In addition, more than 12,000 kilometres of pipeline being constructed or in the planning stages will require massive amounts of pipeline laying equipment, coating expertise, and Supervisory Control and Data Acquisition (SCADA) technologies.

Transportation central to development efforts

Yet it is the transportation sector, most notably rail, which is central to India's development efforts. Indian Railways is the

largest single management railway system in the world and has historically played a crucial role in the social and economic development of the country. Modern transit capacity is seen as a vital and necessary corollary to export growth. Augmenting both cold freight and passenger capacity in high density corridors, expanding lines to under-serviced areas, upgrading safety protocols, and modernizing signalling by adding telecommunications capacity have all been promised funding. Canadian expertise in railway engineering, locomotives, port connectivity, signalling, railway safety and containerization are being marketed individually or as packages to Indian Railways. Financing and lines of credit have been put in place to enable Canadian exporters to fully realize on opportunities. The Indian highway system is also undergoing a comparable upgrade. Canadian companies have been active in providing engineering services and road system management as well as heavy equipment and construction capability.

Key export opportunities

...Power generation, renovation and transmission, railway, road development, oil and gas, pulp and paper, environmental technologies, geomatics and telecommunications...

In the private sector, Canadian exporters have scored notable success in penetrating the Indian pulp and paper market. Demand has expanded commensurate with overall economic growth and Indian production capacity has not sufficiently modernized to keep pace. Canadian exporters can make inroads in servicing added demand and in sourcing Indian efforts to modernize and expand its own production capacity. Competition is fierce and Indian markets are more familiar with imports from Scandinavia. Active promotion of Canadian capabilities is key. Establishing a presence in India is crucial to any export success in this and other sectors of India's economy.

India's business etiquette

Most internationally accepted business practices are followed in India. As a multi-cultural and multi-religious society, India celebrates numerous religious and secular holidays. Travellers should schedule visits and meetings appropriately. Formality should be followed and business cards exchanged at introductory business meetings.

While India's efforts at privatization and trade liberalization are ongoing, and there are positive signs that things are improving, progress is slow. Achieving full growth potential will require India to more vigorously address its bureaucracy and regulatory system and initiate a new wave of economic reforms. For the patient and entrepreneurial Canadian company, India's undoubted emergence offers a wealth of opportunity that shouldn't be overlooked. ■

Peter Brake, LLB (peterbrake@rogers.com) is an Ottawa-based freelance writer. Anis Karim (akarim@edc.ca) is EDC's regional manager, International Markets, for Asia.

How our analysts see it

BY **TABINDA HAIDER** AND **DEREK BAAS**

Political overview

- Hindu nationalism is on the rise and will be a driving force in the lead-up to national elections (October 2004). To appeal to this growing element, the governing Bharatiya Janata Party (BJP) is likely to espouse increasingly divisive ideas and policies including actions against Muslims and other minorities, and a more aggressive foreign policy toward Pakistan. In a democracy with secularism enshrined in its constitution, this tactic of politicizing religion may have serious repercussions.
- Gujarat, went to the polls last December and the incumbent BJP won an unprecedented 127 of 182 seats. Many accuse the state-level BJP of inciting, or at least supporting, anti-Muslim communal violence through much of 2002 and then stoking Hindu nationalist sentiments in order to win the election.
- The long-running conflict in the Jammu and Kashmir (J&K) region threatens the stability of South Asia. Indo-Pakistani tensions reached a boiling point after a 2001 raid on the Indian legislature in New Delhi and again in May 2002 when the dependents of Indian troops were attacked in Kashmir. India suspects that Pakistan-supported Kashmiri militants executed these attacks.
- Voters' rejection of the pro-India National Conference Party in favour of more moderate parties in last October's J&K elections might provide a catalyst for Indo-Pakistani talks. These hopes, however, have been dampened by continuing violence in J&K, a recent exchange of diplomatic expulsions amid accusations of spying and tit-for-tat missile tests.

Economic situation

- Impressive performances in the manufacturing and service sectors, particularly IT services, are leading areas of growth.
- Persistent fiscal deficits are putting pressures on the financial market, raising domestic interest rates and choking off credit flows to the private sector.
- The 2003-04 budget is pushing reform measures such as the introduction of a value-added tax system at the state level and increasing the foreign direct investment ceiling cap in the private banking sector. It also offers tax relief for individuals and corporations, lowers interest rates and import duties, while investing in infrastructure projects such as roads, ports and airports.
- India has also eased restrictions on outward investment.

Key issues to watch

- Privatizaton of government-owned entities.
- Resolution of disputes in the telecom industry.
- Pace of second wave of reforms.
- The rise of Hindu nationalism and the BJP's evolving electoral platform.
- Ongoing Hindu-Muslim violence.
- Events related to Indo-Pakistani relations and Kashmir.

Tabinda Haider (thaider@edc.ca) is an economist with EDC's Country Assessment Group and Derek Baas (dbaas@edc.ca) is a senior political risk analyst with EDC's Political Risk Group.

United Kingdom: Old Ties... New Horizons

BY PETER BRAKE AND CORRY VAN GAAL

Linked by history, people, language and a sovereign, Canada and the United Kingdom (U.K.) have enjoyed an uninterrupted maritime trade relationship for Canada's entire recorded history. The U.K. is Canada's third largest export market, importing approximately $4.2 billion worth of Canadian goods in 2002. Some of the major advantages for Canadian companies conducting business in the U.K. are common business practices, parliamentary and legal systems and cultural familiarities. As a leading member of the European Union (EU), the U.K. also acts as the favoured entry point for Canadian business into the world's largest trading block.

Since its days of dominating the world's sea lanes, the U.K. has relied on trade for its economic prosperity. It is the fifth largest trading nation in the world and a leader in global technological innovation and advancement. The last decade has seen substantive changes in the economic orientation of the U.K., as it shed the vestiges of an industrial society and embarked on post-industrial economic development. The expansion of Canadian exports to the U.K. demonstrates this shift, as commodity exports such as pulp and paper, minerals and agricultural products have been supplemented by finished goods including industrial and electrical machinery, aerospace products and services, and telecommunications equipment.

Third Way proving a success

The advent of a Labour government in 1997, after 18 years of Conservative leadership, has not meant a shift away from free market principles and policies. Led by Tony Blair, the government has stressed a so-called 'Third Way,' combining free market economics with a heightened concern for ethics, community and social responsibility. The average economic growth of three per cent over the past five years bears witness to the success of this approach. In its 2002 budget, the government announced massive public spending increases on infrastructure and public services to redress decades of under investment and decaying structural integrity. Transportation systems, airports and ports, water utilities and medical services will all receive increased funding which will mean increased opportunities for Canadian exporters in those areas.

Export opportunities for Canadian companies exist in expanding offerings of advanced technological products and services. Recent sales of electric trains to the British rail system, together with supplementary contracts for supply and technical support, will enable rising familiarity with the depth of Canadian technological innovation and manufacturing capability. Exporters may also be able to capitalize on planned investment in the London subway system which requires extensive upgrades in order to increase safety and reliability and provide a viable alternative to congested roads.

Aerospace opportunities

The U.K. aerospace industry, the second largest in the world, has been hit hard by the global economic downturn following the September 11 terrorist attacks in the United States. In the long term, however, the outlook is positive with several major aerospace projects entering design and production phase. These include the AirBus A380 program, the development of a defence tactical transport aircraft as part of the U.K.'s role in the EU rapid-reaction force, and the Joint Strike Fighter program, the largest defence contract in history, aimed at equipping the British and American military with supersonic radar-evading fighter capability.

As the fourth largest provider of aerospace products to the U.K., Canada has been highly successful in selling engines and engine components, communications systems, and comprehensive training and flight simulation serv-

ices to the major U.K. aerospace companies. Small- and medium-sized Canadian exporters will increase their ability to compete in the U.K. aerospace market by teaming with smaller U.K. companies or by focusing on second and third tier suppliers to the majors. Exporters who attend U.K. sector-specific trade shows are at a distinct advantage.

Health care devices, biotechnology and automotive parts are other areas offering promising opportunities to Canadian exporters. It should be understood that there are virtually no products or services not already available locally in the U.K. Nonetheless, improved versions of existing products, niche technologies, enhanced systems and lower cost products with equal value are welcome in the highly competitive U.K. market. Local representation is advisable and knowledge of EU standards and directives is an absolute necessity for export success. The successful exporter to the U.K. can also take advantage of the U.K. beachhead to make inroads into the EU market.

The trade relationship between Canada and the U.K. has spanned the centuries since John Cabot first landed in Newfoundland in 1497. As Canada has evolved from colony to Commonwealth partner, our nation's exporters have proved more than capable of winning business in a progressive and modern U.K. ■

Key export opportunities

... engines and engine components, communications systems and comprehensive training and flight simulation services, health care devices, biotechnology and automotive parts...

Peter Brake, LLB (peterbrake@rogers.com) is an Ottawa-based freelance writer. Corry Van Gaal (cvan gaal@edc.ca) is a research officer with EDC's Market and Economic Analysis Department.

How our analysts see it

BY **FERGAL O'REILLY** AND **CORRY VAN GAAL**

Political overview

While Prime Minister Blair appears to have dealt with internal party dissent over the war in Iraq, the longer-term unity of the party may have been damaged. New Labour's successful dominance of the middle ground in British politics is unlikely to be challenged in the medium-term, however, and the main threat is to Blair himself, who may decide to step down ahead of the next general elections (2005) in favour of Gordon Brown, who has long held ambitions for the PM's office.

Disagreement among EU members over Iraq has had the effect of changing the dynamics of politics within the European Union. In this case, the U.K. has lined up with peripheral members like Spain and prospective future members such as Poland, Hungary and the Czech Republic in support of the U.S. position. Once these members join (expected in 2004), the traditional Franco-German alliance at the heart of the EU will likely be challenged. In future, this new versus old Europe dichotomy may become increasingly important in international affairs.

Economic situation

Throughout the past two years of sluggish global growth, the U.K.'s domestic economy has been one of the few shining stars. Unemployment remains at an all-time low, retail sales remain strong and the housing market is buoyant. Regardless of the obvious strength in the service-side of the U.K. economy, which makes up 80 per cent of total GDP, the Bank of England decided to cut rates by 25 basis points to 3.75 per cent in February. The bank sent out a strong signal that risks to 2003 growth are weighing in on the downside. Confirming this, the bank lowered its 2003 growth forecast from between two to 2.5 per cent, much lower than the 3.1 per cent growth previously anticipated. Moreover, the revised forecast may still be slightly optimistic as current global instabilities will likely limit the strength of an externally led recovery, and the service sector may be limited in its ability to contribute further to growth without overheating.

Key issues to watch

- Consumer spending skyrocketed in 2002 despite a weak manufacturing sector; however, recent data suggests that consumers are under pressure and will not likely sustain the strong spending rates seen last year.
- Consumers are becoming increasingly burdened by high levels of debt and any upturn in interest rates could put pressure on consumer balance sheets. This coupled with weak income growth and possible tax hikes could leave consumers with little room to take on new expenditures over the next two years.
- Also, current imbalances in the U.K. housing market leave the economy extremely vulnerable to either a sharp rise in interest rates or increases in unemployment. An economic shock giving way to either one could cause consumers to increase savings and retrench spending. If this results in a rapid fall in house prices, the economy could face a prolonged slowdown in growth. However, the more likely scenario is for spending growth to remain subdued over the next year or two, as real estate prices come down in-line with fundamentals.
- The possible accession of the U.K. into the European Monetary Union (EMU) may restrict the flexibility of the U.K. economy over the coming years. Keeping the budget in line with EMU targets and controlling for inflation could put policy makers between a rock and a hard place, especially if current market imbalances continue. Keen monetary and fiscal policy decisions will be crucial to the U.K.'s ability to overcome any near-term challenges to growth. ■

Fergal O'Reilly (fo'reilly@edc.ca) is a senior political risk analyst with EDC's Political Risk Group and Corry Van Gaal (cvan gaal@edc.ca) is a research officer with EDC's Market and Economic Analysis Group.

PUTTING TOGETHER THE EXPORT PUZZLE (PART THREE)

EXPLORING EXPORT OPPORTUNITIES

You're now sure that you have great potential as an exporter. Your company is financially viable, your product is top-class and you're confident that there's a demand for it beyond the domestic market. Now what you need is an opportunity – or two, or three.

BY **DENNIS** AND **SANDI JONES**

Opportunity knocks, with some help

Waiting for opportunities to bang on the door might work, but it's better to get out there and find them yourself. Keep in mind, though, that trade experts advise new exporters to pick one market and pursue up to three possibilities within it. In other words, be selective.

Good trade leads are an essential for this. An excellent place to look for them is Team Canada Inc (TCI), whose *RoadMap to Exporting* and *A Step-by-Step Guide to Exporting* provide valuable background and references. You can get them in print by calling **1-888-811-1119** or online at

Address: exportsource.ca/roadmap

and

Address: exportsource.ca/stepbystep

respectively.

While at the

Address: exportsource.ca

home page, click the Trade Leads link. You'll find resources ranging from e-Leads, which delivers international business leads to your desktop, to IFInet, which lists procurement opportunities available through the International Financial Institutions network. The Sector and Market Reports link will send you to information about sector-specific opportunities in dozens of countries. Or, for more personalized planning assistance, call TCI's Export Information Service at 1-888-811-1119.

Investigating indicators

Tracking various indicators, such as foreign economic initiatives, can also point you to export opportunities. EDC's Market Insight service has data on economic and political events for more than 60 of Canada's major trading partners. To subscribe, go to

Address: www.edc.ca/ereports

Also try the Canadian Trade Commissioner Service's site at

Address: www.infoexport.gc.ca

After free registration with its Virtual Trade Commissioner, you'll be able to monitor news, market intelligence and trade leads, as well as obtain services like contact searches and briefings.

For more sector-specific leads, use Industry Canada's Trade Team Canada Sectors (TTCS) at

Address: ttcs.ic.gc.ca

It provides links to 13 key Canadian industries including service industries. Industry Canada also provides a searchable database of statistical indicators for export markets. Go to

Address: www.strategis.ic.gc.ca

click Exporting and then the Trade Data Online link.

The Department of Foreign Affairs and International Trade (DFAIT) has a link to a Countries and Regions page at

Address: www.dfait-maeci.gc.ca/world/menu-en.asp

This provides general and specific data for everywhere from Brunei to Iceland.

CanadExport at

Address: www.dfait-maeci.gc.ca/canadexport

is another excellent source of leads and indicators. This newsletter offers current business news and market studies and will keep you posted on upcoming trade conferences and trade shows.

NOTE: where there is no 'www', type the URL exactly as shown.

This is the third in a four-part series. Look for part four "To Market, to Market" in the Fall 2003 issue of *ExportWise*

An equally useful web site belongs to the Canadian Commercial Corporation at

Address: www.ccc.ca

Scroll to the bottom of its home page and click either Industry Sectors or Market Research. The former gives you references for six key Canadian industry sectors, from aerospace to transportation. The latter connects you to a long list of market opportunities all over the world, including government and UN procurement markets. Be sure to check out Success Stories on the home page – they may spark ideas for your own export project.

Getting noticed

Raising your business profile is a good way to attract customers, and one method of doing this is to attend trade shows. You can locate appropriate ones at

Address: exportsource.ca

just click the Trade Shows/Events link to see what's happening.

To help plan for a show, go to

Address: exportsource.ca/tradeshow

and look at TCI's guide Successful International Trade Show Marketing. Two other useful TCI publications are *Speaking Globally: A Guide to Effective International Presentations*

Address: exportsource.ca/presentations

and *Planning a Business Trip Abroad*

Address: exportsource.ca/trip

Another way of getting noticed is to join the Canadian Company Capabilities database. Again, go to Industry Canada at

Address: www.strategis.ic.gc.ca

click Company Directories and then the Canadian Company Capabilities link. Registration will help potential foreign customers find you, and can connect you with export opportunities in both the public and private sectors.

Fitting in

Landing an export sale means that you may be meeting your customer face-to-face in his home country. Cultural differences can cause you to offend your host without realizing it, so you should learn something about these differences before you go.

If possible, talk to someone familiar with the customer's culture. If you can't, do a search for "business culture" on the Internet, which will produce lots of resources; a representative is

Address: www.executiveplanet.com

Another good source is

Address: www.worldtravelguide.net

which includes city and regional guides for visitors. Industry Canada's Strategis web site also has an excellent cross-cultural marketing site at

Address: http://strategis.ic.gc.ca/marcopolo

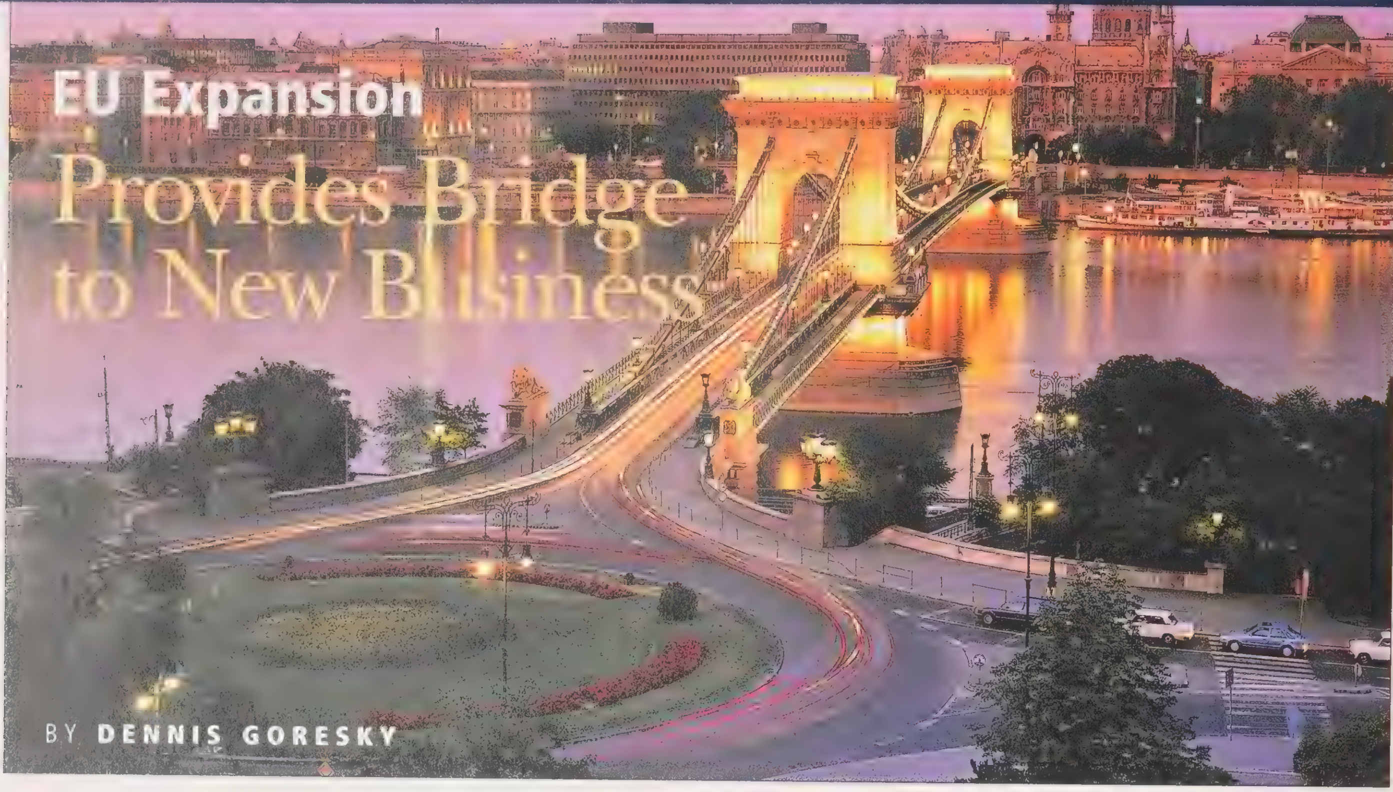
And bookstores, of course, have plenty of printed information.

Moving on

If all goes well, you'll soon need to know about the nuts and bolts of getting your product to your customer, not to mention the legal side of international trade. To help you out, we'll take a look at these issues in our next article. ■

EU Expansion Provides Bridge to New Business

BY DENNIS GORESKY



By May 2004, the first wave of Central and Eastern European countries will become full members of the European Union (EU). With the addition of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland and the Slovak Republic, the EU will become the largest single market in the world with 475 million people and a combined GDP of approximately $US 8.3 trillion.

To become full members, the new states have agreed to a number of conditions including establishing stable democratic governments, creating functioning market economies, and adopting common rules, standards and practices that make up the body of EU law. When it comes to international business, this expansion means a profound change in the way business is conducted. Many Canadian companies see this expansion as the establishment of "Fortress Europe," where they will be excluded as potential business partners. On the contrary, EDC believes this will open the doors to new business.

Canada and the European Union have a strong history of bilateral trade relations. Since 1991, Canadian exports to the EU have grown to 4.5 per cent compared to 2.9 per cent for the rest of the non-U.S. world. While the United States absorbed 94 per cent of the growth in Canadian exports between 1991-2001, the EU accounted for 44 per cent of the growth in non-U.S. exports. A similar trend is evident in the area of foreign direct investment, where Canadians are taking direct stakes in more Western European states.

Time for Canada to copy the trend

While Canada was expanding into Western Europe, the countries of the EU have been rushing into Central and Eastern Europe, where prices and wages are lower and large numbers of educated people had been under-employed. It is time for Canada to copy this trend of expanding into Central and Eastern Europe.

The companies who are ahead of the game are those with experience in current member countries or those that have already established a presence within the European Community. These companies have a tremendous expansion advantage compared to the East because many companies operating in the EU are only now qualifying under its stringent rules. Therefore, Canadians make ideal business partners.

Those looking to expand east into Russia and the Ukraine can use Central Europe as an ideal beachhead. Established relationships between central European countries and the Commonwealth of Independent States can assist Canadians in providing quality solutions in Russia and its neighbours. As well, many Central European companies and banks still have strong ties to the East making the establishment of a network of regional contacts easier. ■

Located in Warsaw, Poland, Dennis Goresky (dgoresky@edc.ca) is EDC's regional manager for Central and Eastern Europe.

China: The Long Road to Government Restructuring

BY ALISON NANKIVELL, CFA

The annual meeting of the National People's Congress (NPC), China's legislative body, came to a close in March with a blueprint for government restructuring that underlines the leadership's ongoing commitment to economic reform and improved regulatory efficiency.

The NPC session, which convened to select the country's new generation of leaders and adopt the 2003 fiscal budget, approved a reorganization of China's bureaucracy that has some positive implications for foreign investors and exporters.

Specifically, the creation of a unified Ministry of Commerce (MoC) to govern both domestic and foreign trade should spell good news for foreign and domestic firms by minimizing the number of government bodies involved in approving investment and trade activities. This new body replaces the former Ministry of Foreign Trade and Economic Cooperation and most of the functions of the State Economic and Trade Commission – both of which have been abolished. The new MoC will also assume some of the responsibilities of the State Development Planning Commission (SDPC), which was reorganized and renamed the State Development and Reform Commission (SDRC).

The new MoC is responsible for managing the country's import process, although other regulatory agencies such as China Customs and the new State Food and Drug Administration will continue to serve as certifying bodies for this trade. It is hoped a strengthened trade ministry will be a positive force for implementing fair trade practices covering both intra-regional and international trade.

The revamping of China's all powerful SDPC into the State Development and Reform Commission reflects China's ongoing determination to shift its vast economy away from central planning and towards market-based regulation. The hope among foreign investors, who in the past have wrestled with SDPC's extensive control over major investment projects, is that the new SDRC will focus more on research than on planning and approval. However, it is unlikely the new SDRC will yield gracefully to any efforts by Beijing to reduce its status and scope.

Other economic agencies which were created in the government shuffle include:

State Asset Supervision and Management Commission. This ministerial-level organization will take centralized control over the US$1.3 trillion in assets owned by the Chinese state. SAMC has been tasked with overseeing reform of China's ailing state-sector, but whether this new Commission acts as a force for or against privatization of China's staggering array of national and local government-owned companies, is still open to speculation.

The China Banking Regulatory Commission was created to take over regulation and supervision of the country's banking industry from the People's Bank of China so that the central bank will be freed-up to concentrate on monetary policy.

State Food and Drug Administration, modelled on the U.S. Food and Drug Administration, is tasked with reinforcing safety standards in food, health products and cosmetics. However, this new Administration will still be required to coordinate its activities with China's General Administration for Quality Supervision, Inspection & Quarantine (AQSIQ), the Ministry of Agriculture and the Ministry of Health to ensure regulatory consistency and national treatment of foreign imports. ■

New import regulations

China has created regulations for a new compulsory product certification mark called the China Compulsory Certification. As of August 1, 2003, 132 products imported into the country will require this mark. The product categories are: electrical wires and cables; switches for circuits; protective installation and connective devices; low-voltage electrical equipment; small power motors; electric tools; welding machines; household and similar electrical appliances; audio and video equipment (excluding acoustic equipment for broadcasting service and automobiles); information technology equipment; telecommunication terminal equipment; motor vehicle and safety parts; motor vehicle tires; safety glasses; agricultural machinery; latex products; medical devices; fire-fighting equipment; and, alarm systems.

For more details, visit the Department of Foreign Affairs and International Trade's web site at ***www.dfait-maeci.gc.ca/canadexport/docs/active/view-en.asp?did=2606***

Located in Beijing, China, Alison Nankivell (anankivell@edc.ca) is EDC's regional manager for China.

Cleanup Time

BY MICHAEL TOOPE

The past 30 years have seen a steady rise in the prominence of environmental issues, finding support across a wide range of organizations, from grassroots coalitions to international committees. Growing concerns over how we protect and steward our land, air and water have encouraged extensive research and development, resulting in a host of new products and services.

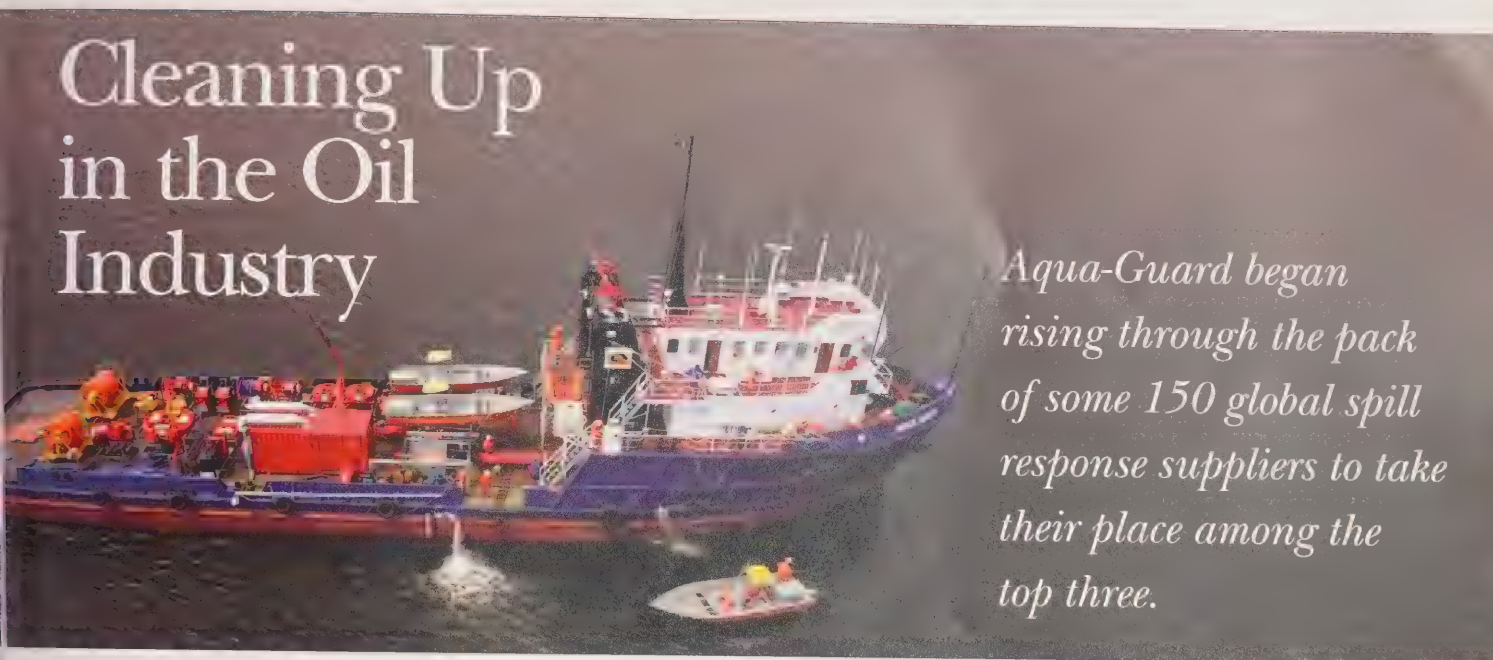
Cleanup technologies encompass many initiatives, from the containment of soil contaminants and oil spills, to monitoring pesticide use. Land and water remediation attempts to improve 'disturbed' resources to achieve a desired end-use.

Canadian companies, already leaders in a number of environmental services, are positioned to benefit from expanding global opportunities, both from developed and developing countries.

Here we profile two Canadian exporters helping to clean up the world: Aqua-Guard Spill Response Inc. of Vancouver, British Columbia, and Biogenie of Sainte Foy, Quebec.

Aqua-Guard:

Cleaning Up in the Oil Industry



Aqua-Guard began rising through the pack of some 150 global spill response suppliers to take their place among the top three.

Lawrence Pertile and Nigel Bennett have a rich history of cleaning up in the oil business. Friends since meeting at the British Columbia Institute of Technology, they apprenticed with environmental consulting businesses owned by Bennett's father in the 1980s. They met global contacts in the oil industry and developed innovative technologies for containing and recovering oil spills for Bennett Sr.'s subsidiary, Aqua-Guard Technologies.

By 1992, success with their made-in-Canada oil containment booms and skimmers encouraged them to buy their independence from Bennett Sr. and strike out on their own as Aqua-Guard Spill Response Inc.

Aqua-Guard proved itself in a big way with its first contract for a Taiwanese client. New to manufacturing inflatable air booms on a large scale, the risks of technical glitches and lost manufacturing costs were daunting. But it worked, and Aqua-Guard began rising through the pack of some 150 global spill response suppliers to take their place among the top three.

Growth was slow and steady, with revenues hovering in the $1.5 to $3 million range in the 1990s. Cautious after being burned by overseas buyers, Aqua-Guard chose not to accept payment terms from its customers, requiring payment by letters of credit only.

This decision protected them from potentially fatal defaults, but also kept them out of the big leagues with major oil companies. Pertile and Bennett knew their innovations could have a farther reach and sought EDC's help. With EDC Accounts Receivable Insurance eliminating the risk of non-payment, Aqua-Guard is now secure with bigger contracts. Revenues hit $5 million last year.

One client taught them a hard lesson by withdrawing funds from Aqua-Guard's Performance Bond after contriving to force them into late delivery. Fortunately, the Performance Bond was insured by EDC against wrongful calls, and Aqua-Guard quickly recouped their capital.

Bennett's advice for new exporters? "Talk to people who have experience, the guys who are in the trenches hammering it out for years and years. Like us, they've found out how it works the hard way."

Attending the school of hard knocks pays off, with proof positive in Aqua-Guard's enviable record of 2,500 clients in more than 150 countries.

Bennett puts his words into action as a volunteer with the Young Entrepreneurs Organization (www.yeo.org), a global, non-profit educational organization for business owners under 40, that helps members through learning and networking opportunities.

Rapid growth is Aqua-Guard's next challenge; one Pertile and Bennett are tackling with the same energy and innovation that brought them their current success. ■

COMPANY PROFILE

Business: Design, manufacture and supply of oil spill response equipment and services

Location: Vancouver

Established: 1992

Employees: six

Exports: Approximately 90% of annual sales

Export Markets: More than 150 countries

Contact: www.aquaguard.com

Biogenie:

On Solid Ground

BY MICHAEL TOOPE

Photo: Courtesy of Biogenie S.R.D.C. Inc.

What do you do with contaminated property that has no practical re-sale value, minimal utility and potential legal and financial liability? Call Biogenie, a Quebec company that returns value to contaminated properties for its global customers.

Site remediation is Biogenie S.R.D.C. Inc.'s specialty and since 1986, more than 1,000 contaminated sites have regained practical use after successful remediation using Biogenie's specialized services.

Co-founders Benoit Cyr and Jean-Luc Sansregret met at Laval University where Sansregret's work in biology (Bio), combined with Cyr's studies in engineering (*génie* in French), soon evolved into Biogenie's capacity to remediate contaminated soils in large-scale projects in the field.

Cyr and Sansregret's breakthrough came near Quebec City, helping a multinational petroleum company to biologically treat soil stockpiled in a refinery yard contaminated with gasoline and fuel oil. Before long, Biogenie was building up an extensive client list in the petroleum sector throughout North America.

Demand for Biogenie's site remediation services has grown because urban industrial sites ("brownfields"), some created generations ago, have an inherent value as property developers seek new business opportunities. Many governments are preventing encroachment on previously undeveloped areas ("greenfields") thereby inciting remedial actions in more central locations near existing infrastructure. France and the United Kingdom are the sites of Biogenie's most important international operations.

Until recently, some European practices allowed for contaminated soils to be excavated and trucked away to landfill sites, an inexpensive solution for many clients. But moving the pollution elsewhere is not always an option for logistical and regulatory reasons, and Biogenie has won major contracts for large-scale projects, including the site of a convention centre for the city of Mulhouse, France, and the site of a new international terminal on the Paris to London high-speed rail link. Clients are

buying into the long-term value of soil remediation, and Biogenie is keeping its permanent soil treatment facility near Paris busy.

Since Biogenie offers fixed-price remedial solutions backed with guarantees, it is not surprising that the company relies on its extensive experience in remedial action planning before contracting with a client. As Benoit Cyr says, "Get a $12 million purchase order from a customer, put up a Performance Bond for 100 per cent of the price, and you better be sure it's going to work."

"It's an environmental investment, not an environmental expense."

Multi-million dollar decisions about site remediation are never made easily. To help close the deal, Biogenie has used EDC Accounts Receivable Insurance to protect against non-payment by their buyers and to secure Performance Bonds which their buyers demanded as a condition of winning the export contract. At the end of the day, the customer's investment turns a negative asset with potential legal liabilities into a positive asset with re-use and market value.

"It's an environmental investment, not an environmental expense," says Cyr, words Biogenie's clients can take to the bank.

COMPANY PROFILE

Business: Site remediation

Location: Sainte Foy

Established: 1986

Employees: 160

Exports: Approximately 45 per cent

Export Markets: U.S., France and U.K.

Contact: www.biogenie-env.com

Cleanup Facts

BY **PAUL STOTHART**

From reports of contaminated water and toxic spills, to endangered species and global warming, it is common to read headline news about environmental concerns. Terms such as sustainable development, hazardous wastes and ozone depletion have become part of our lexicon, demanding the attention and talents of public and private organizations.

The Canadian environmental industry comprises approximately 7,500 companies, employing more than 221,000 people, with annual sales in excess of $26 billion, and exports exceeding $1.3 billion. Canada is a technical leader in many environmental areas, including water and wastewater treatment technologies, liquid and solid waste management, environmental instrumentation, and emerging hydrogen energy technologies.

The environmental industry is positioned across a spectrum of activities. Environmental cleanup itself embraces a wide range of activities – from monitoring the disposal of nuclear and toxic waste, to managing emergency response teams and landfill remediation projects.

The global waste cleanup market is estimated at more than $100 billion per year, with many countries experiencing growth in the 20 per cent range. The U.S. government, for example, spends some $1.4 billion annually under one federal government program alone to cleanup priority toxic waste sites. In Mexico, there are an estimated 3,000 gas stations with chronic leakage problems, and Spain, which is generating 20 per cent annual growth in hazardous wastes, will be hard pressed to meet emerging European Union waste requirements. In China, the environmental protection budget for solid waste disposal alone will total some $20 billion from 2001 to 2005.

In terms of environmental legislation and programs, developed countries are generally more advanced than developing countries. However, as indicated, substantial market opportunities exist in both economic climates.

During the past year, EDC supported approximately 50 companies in the waste area, with exports such as oil skimmers, waste incinerators, effluent filtration systems, geomembranes, and oil purification systems.

Paul Stothart (pstothart@edc.ca) is an advisor on environmental and strategic issues with EDC's Business Development Group.

Pinpointing Opportunities with Geomatics

Heart racing, you hit the breaks hard. But it's already too late. The oncoming car smashes into yours, sending both vehicles spinning into the ditch. You fumble for your cell phone and dial 911. But being out on the road, you realize you can't even give a specific address, and then you lose consciousness...

BY **JANE DALY**

Yet thanks to geomatics, a rescue team is soon on the way. Embedded technology has computed the location of your vehicle using a constellation of orbiting Global Positioning Systems (GPS) satellites, and your cell phone has relayed the vehicle's position and even that your airbag has deployed.

One of the fastest-growing technology sectors, geomatics covers an unusually broad range of disciplines. These include surveying, mapping, remote sensing, geographic information systems (GIS), and global positioning systems. Canada's geomatics community, recognized as a world leader, is involved in areas as far-reaching as land management, infrastructure management, development planning, natural resource monitoring, coastal zone management, and much more.

However, Mike Strutt, president of Redbeard Technologies, a training and consulting firm for the industry, says, "Working with spatial relationships is what ties all the sectors together." He adds that geomatics is increasingly an integrated solution, with GIS and GPS embedded in other kinds of technologies or products, such as vehicle navigation systems.

Other geomatics companies produce technologies that provide critical information. One example is Nanometrics, the only company in the world that produces complete satellite networks to monitor earthquakes. Nanometrics has more than 85 fully digital networks in more than 40 countries and on every continent, from the steaming jungles of South America to Canada's frigid north.

"Our business is a true Canadian success story," says Neil Spriggs, vice-president of sales and marketing, Nanometrics. "The biggest kick we get is that we took the science of earthquake data and moved it into a satellite data network."

Spriggs explains that earthquake data used to be forwarded through phone lines, so monitoring equipment could only be placed in populated areas. "With our satellite network, we have perfect communication even where there's no infrastructure."

Nanometric's systems send data back to a central site, where its analysis can help design earthquake-proof structures, elicit warnings that a life-threatening tsunami or volcanic eruption could follow a quake, and allow emergency crews to respond more effectively. In recent years, this technology has also taken on a role in detecting nuclear weapons testing. When there is an explosion beneath the earth's surface, data can determine whether the disruption was natural or man-made.

While Nanometrics monitors the blips and bumps of the world, it uses EDC to give a smoother ride to its customers. "We use EDC's Accounts Receivables Insurance, and this allows us to offer an open account to customers," says Spriggs. "We sleep at night, and customers get friendlier payment terms."

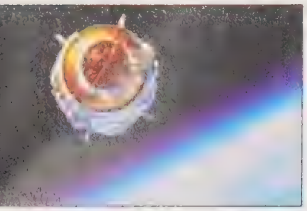
Spriggs says the company's reputation helps them grow. "We've shown customers that our equipment will give them the continual data they need. We're extremely reliable."

Rapid growth

As an industry, Canadian geomatics is growing rapidly. "In 2001 the market was estimated to be worth approximately $2 billion, employing a total of 27,000 people," says trainer and consultant Mike Strutt. "These numbers are expected to grow to $3 billion and employ 32,000 people by 2004." The 32,000 will be employed throughout the primary geomatics disciplines of surveying, earth observation, GIS, cartography, navigation and positioning.

Strutt attributes the Internet as the most significant factor for this growth, which can deliver complex geomatics data faster. A second is easier-to-use, affordable software. His role as a trainer enables companies to become more productive with software, sooner rather than later. "If they misuse the software and the data isn't accurate, it can cost them a lot of money."

Also working to help the growth of geomatics is Canadian Commercial Corporation (CCC), which assists companies in winning major international contracts, particularly in government markets. "Canada has traditionally excelled in this industry because of the tremendous challenges



organizations faced in managing the world's second largest landmass – some 10 million square kilometres – and vast coastal regions," says J. Hugh O'Donnell, executive vice-president. "To meet this challenge, we have led the way in harnessing emerging technologies such as pioneering Geographical Information Systems and quickly adapting Global Positioning Systems."

Another geomatics company that's enjoying amazing growth and success is Optech, which specializes in manufacturing laser-based ranging and detection systems.

"We're a quiet little Canadian company doing world-class work," says Phil Arsenault, vice-president of Optech. Almost all Optech products are based on laser radar, or lidar. Similar to ordinary radar, it sends out narrow pulses of light rather than broad radio waves. A receiver system times, counts and processes the returning light, and the time measurement is converted to a distance.

One product that Arsenault is particularly proud of is the SHOALS-1000 Bathymeter, used to chart shallow water up to 50 metres deep. "Companies once used sonar from a ship to chart about six square nautical miles a day, at a cost of about $100,000," says Arsenault. "SHOALS can chart six square miles every 15 minutes, all day, for about $30,000 a day." The data can be used for nautical charting, sediment transport modelling, building a new pier or bridge, for harbour and port studies, looking for moored mines, and more.

Another source of pride for Arsenault is the ILRIS 3-D, the longest range global scanning technology in the world. "This is being used on seven continents and we're now a world leader," he says. In fact, the ILRIS is even going to be "exported" to another planet, when it travels to Mars on the Phoenix mission in 2007. "The world got to be too small for us," Arsenault jokes.

When it comes to exports, Optech uses insurance guaranteed loans and letters of credit. "We're extremely happy with our work with EDC," Arsenault says. "None of our customers has defaulted, but this gives us peace of mind."

Arsenault sums up that there's one more benefit our geomatics companies have going for them. "We find it's an advantage to be Canadian," he says. "Canadians are well-liked and well-respected around the world, and we're very proud to be Canadian.

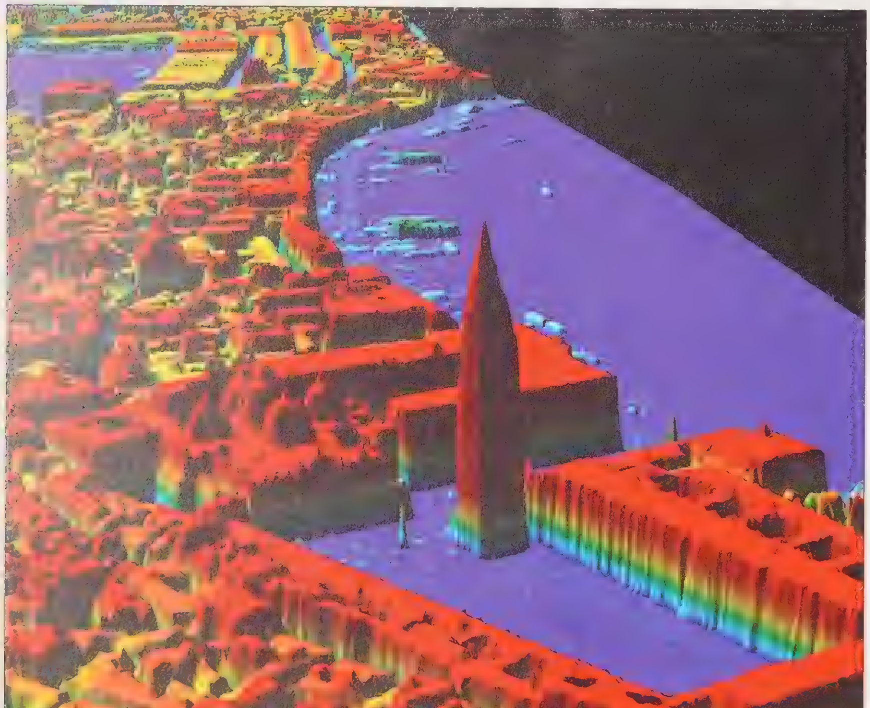


Photo: Courtesy of Optech

Teaming up for success with the new Canadian GeoProject Centre

"Most Geomatics business opportunities in developing countries are either very large projects, or where geomatics is one component embedded in a large project in another sector, such as resource development, land administration or infrastructure," says Ed Kennedy, former president of the Geomatics Industry Association of Canada. "It's a challenge for Canadian companies, which tend to be small and often specialize in niche products, to take on projects of this scope."

But Kennedy has a solution. The Geomatics Industry Association of Canada has just launched a new subsidiary, called the Canadian GeoProject Centre (CGC), in partnership with the Canadian Centre for Marine Communications. Kennedy is the subsidiary's new managing director. "CGC is a centre of expertise for initiating projects in developing countries, bringing together financing, and forming teams among Canadian companies, and perhaps companies in other countries," he explains. "We'll be the broker and facilitator in putting together the best possible geomatics team."

Seed funding from the industry and Natural Resources Canada and other government funding partners will help fund operations for three years, after which funding will come from a percentage of each project. ■

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☐ **Yes.** I would like an EDC representative to contact me.

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Demographic information

Language preference

EN ☐ English FR ☐ French

Please indicate if you are...

C ☐ an EDC customer
E ☐ an educational institution
S ☐ a student
G ☐ a government official
P ☐ a potential EDC customer
T ☐ an association
O ☐ other: ____________

Please indicate annual export sales:

V1 ☐ less than $1M
V2 ☐ $1M to $5M
V3 ☐ exceeding $5M
V4 ☐ not currently exporting

Principal product and/or service:

1.
2.
3.

CANADA POSTE
POST CANAD

Postage paid
if mailed in Canada
Business Reply Mail

Port payé
si posté au Can
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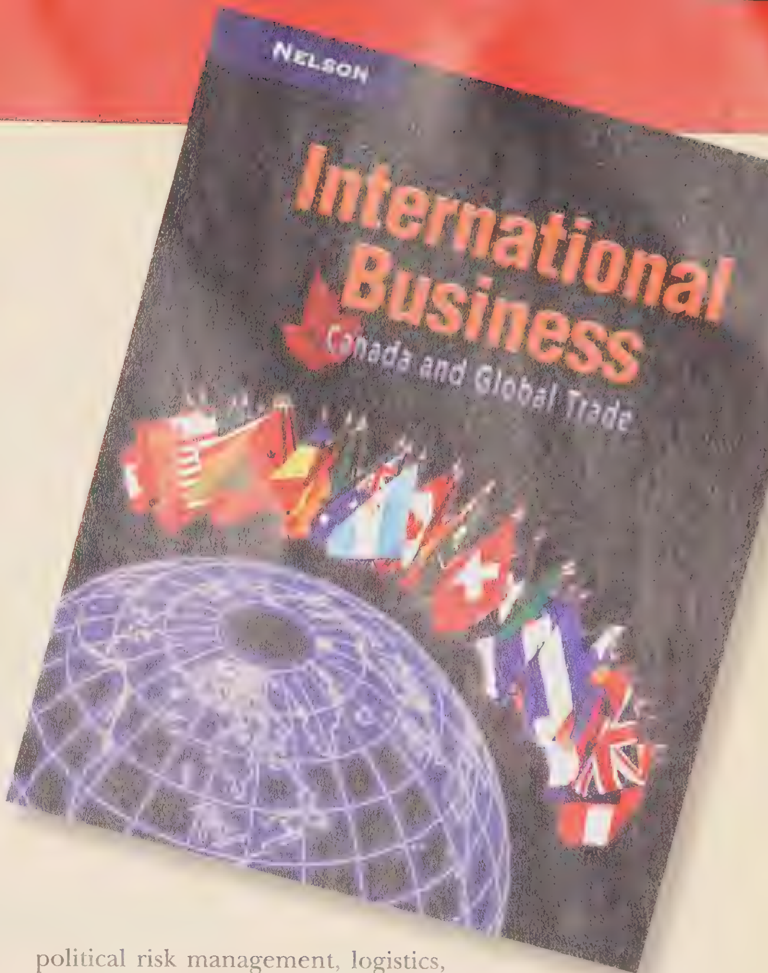
Thinking Outside the Border

BY **TERRI-SUE BUCHANAN**



Think outside the Box. Good paradigm. Think outside the border? Even better.

As the Canadian economy continues to rely increasingly on international trade, the importance of advancing a business paradigm around an export culture becomes progressively more evident. And who better to embrace this view than the first generation of Canadian thinkers reared since the advent of the digital age and connected global economy – today's high school students.

"It's simply not enough to engage students in the concept of international trade at the post secondary university level," says educator and writer Michael Schultz. "You have to reach them at a younger age, introduce them to the intricacies of international business and the possibilities of trade, in order to help shape the entrepreneurial and global mindset that says – this is really important to our country's future."

As co-author of the textbook *International Business: Canada and Global Trade* for the recently created Ontario Business course, Schultz helps manage the Cooperative Education Program and teaches Business Studies at Chinguacousy High School, in the Peel District School Board in Ontario.

The International Business curriculum, launched this past fall, is now offered across the province. Schultz estimates that between 7,500 and 10,000 students selected this course in year one, representing hundreds of secondary schools throughout Ontario. Schultz' role for the past two to three years has been to workshop the course and textbook throughout the province, in order to support the many teachers who are introducing this new program. While only available in Ontario, International Business may well expand to other provinces in the near future. Many of them have already designed their curricula to recognize the influences of globalization.

The International Business course teaches about the economic relationships that both Canadian governments and businesses have developed with other nations, including the effects on productivity, prices, and a variety of goods. Specifically, students learn about the requirements for conducting business in other countries and competing in international markets, in order to pursue further education and careers in international business.

"The course is a direct response to the need for students to be plugged into globalization and the need for Canada to ensure its own competitive advantage," says Schultz.

With this in mind, the course covers such topics as marketing trends and opportunities, social responsibility, political risk management, logistics, culture and customs. The culminating activity for many students will be the creation of an International Business Portfolio, whereby students explore a specific country and its relevance in terms of trade relations with Canada. Throughout the course, students will also be working closely with community business and organizations that are already active international players.

The students create and build on their own International Business Portfolio by actively researching and engaging international trading partners, thereby learning to behave and think like entrepreneurs, but within a global context. Also slated for implementation at Schultz's school next year is an International Business Certificate, awarded to those who attain 80 per cent in six of 17 elective credits with an international orientation.

"Ultimately, this course carries the notion of domestic entrepreneurship to the next level – the global scene," says Schultz. "It helps to create the mindset and the recognition that their economic future depends on knowing how to compete with their neighbours, across political boundaries." ■

Co-author of International Business, Canada and Global Trade *(Nelson 2003) and* The Entrepreneurial Spirit, *(McGraw-Hill Ryerson Limited, Toronto, 1991) Michael Schultz has led his business students through several GLOBE partnerships (Global Learning of the Business Enterprise) and a variety of other Junior Achievement and Junior Team Canada programs. Chinguacousy's GLOBE partners have included schools in the United States, Fiji, Indonesia, Russia, Mexico and Romania. Schultz has travelled and taught globally, including fellowships to Japan and South Korea, as well as two summer assignments teaching business at Oxford University in England.*


Photo: Doug Millar Photography

I am interested in pursuing a career in the import/export field. I was wondering if there was an international institute in Canada where I can study and get a certification in this field. Getting this certificate will, I believe, help me get a job with an export/import company. I appreciate your feedback and advice.

Sunny Yee
7-50 Congress Crescent
Hamilton, ON L8K 6L8

We would suggest that you consider contacting the Forum for International Trade Training (FITT). FITT is Canada's centre for international trade training and certification. It is a national, not-for-profit, professional organization, founded in [illegible] by industry and government to develop and deliver international trade training programs and services, establish country-wide standards and certification and generally ensure continuing professional development in the practice of international trade.

FITT programs are delivered across Canada through community colleges, universities, private organizations and on-line. The address for FITT's web site is www.fitt.ca. There you will find all the background information you need as well as how to become a Certified International Trade Professional (C.I.T.P.). FITT offers the only national professional designation in Canada that recognizes an individual's experience in international trade. It is the highest level of professional accreditation available to international business and trade professionals.

We hope that this information will help you reach your goals and we wish you the best of luck in your future endeavours.

Norm Hotchkiss, C.I.T.P.
Relationship Manager
EDC's SME Services

Don't be shy

If you have a story idea, know of a special achievement, or would like to tell us about your funniest exporting experience, write to us at *ExportWise*, Export Development Canada, 151 O'Connor St., Ottawa ON K1A 1K3, or send us an email at exportwise@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Brenda Brown
brbrown@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateurs avertis* is led by Anne Tanguay.

Contributors
Laurel Anderson, Derek Baas, Ed Bernack[illegible] Peter Brake, Terri-Sue Buchanan, Debora[illegible] Chapman, Ian M. Clarke, Jane Daly, Trish[illegible] Edwards, A. Ian Gillespie, David Goldfiel[illegible] Dennis Goresky, Tabinda Haider, Toby Herscovitch, Dennis Jones, Sandi Jones, Anis Karim, Rod Lever, Patti Miller, Aliso[illegible] Nankivell, Fergal O'Reilly, Stephen Poloz[illegible] Veronica Prochazka, Allison Rodriguez, Richard Schuster, Geoff Stone, Paul Stothart, Michael Toope, Corry Van Gaal

EDC Advisory Board
Mark Bolger, Rosemarie Boyle, Donna Choquette, Marc Deschênes, Andrew Douglas, Judy Dudley, Ruth Fothergill, Linda Graupner, Glen Hodgson, Walt Hutchings, Suzanne Joberty, Alison Lawford, Diana MacGibbon

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC's Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC's Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

How secure are your investment loans?

With EDC's Political Risk Insurance of Loans, we offer increased protection for your loans from political and economic catastrophes.

For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

With EDC's Direct Loans, it can happen. EDC arranges financing agreements with foreign buyers, or foreign borrowers on behalf of foreign buyers, for the export of Canadian capital goods or services.

Does your foreign buyer need a loan?

Perhaps EDC's Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's web site at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

For more information on these products visit **www.edc.ca/financing**

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What if my buyer demands a bond?

You can get bonds from either your bank (letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by giving you an insurance policy that will ensure the bank or surety company gets paid.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC's Bid Security Insurance (BSI) and Performance Security Insurance (PSI) which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control such as war.

For more information on these products visit **www.edc.ca/bonding**

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Want some market insight that will actually help you make a decision?

Check out EDC's EXPORT MarketInsight, economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.

Want to assess your credit risk – FAST?

Determine the credit profile of more than 70 million buyers, on-line and anytime, with EDC's EXPORTCheck.

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For more information on these products visit **www.edc.ca/e-services**

Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at 1-800-850-9626.

Could you use more working capital?

With EDC's Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC's Simplified Contract Bonding, a streamlined application/ approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Emerging Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in new and emerging markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Economic Forecasting Becoming a Brutal Business

BY **STEPHEN S. POLOZ**

The new millennium is only three years old, but from an economic forecaster's perspective, it already seems like a lifetime. Recalling the major global economic turning points since 2000 is a good way of putting the outlook for 2003-04 into perspective.

In these days of instant economic analysis, a month can seem like forever – certainly long enough for an economist to flop around like a fish on the dock. But business plans are made over much longer horizons than those popularized by the media. It is worth taking a look at the forecasting record of the past three tumultuous years, if only to help us put the current situation into context.

Think back to 2000. We survived Y2K, despite the disaster warnings of some economists. Indeed, 2000 proved to be a boom year for the world economy, with growth registering a stunning 4.6 per cent. Our message to Canada's exporters that year was simple: global business conditions were as good as they could get, which is the same as saying that it would be all downhill from there.

By early 2001, the unfolding world slowdown was becoming quite clear, but the seeds of the transition from a negative growth dynamic to a positive one were already being planted. EDC's forecast theme was "2001: A U-Shaped Odyssey," which was meant to convey that the global economy would reach bottom sometime in late 2001, and then begin to recover. The use of the word "odyssey," however, represented more than a nod toward Arthur C. Clarke's novel of 30 years earlier. An odyssey is typically a long and difficult journey, and we wanted exporters to know that we would not likely see a quick snap-back in economic growth in 2002.

And then there was the horror of September 11, 2001. Developing an economic forecast in the fall of 2001 was next to impossible. The title of our forecast was "Dealing With the New Age of Uncertainty," which alluded to John Kenneth Galbraith's book about the shortcomings of the economics profession. But our reference to uncertainty had a deeper connotation; that the threat of terrorism had thrown some sand into the wheels of global commerce, frictions that might affect growth in trade for many years to come.

Early 2002 saw the emergence of hope that the global economy had withstood one of the greatest shocks of all time, and that the U-shaped recovery was proceeding more or less as forecast. Our forecast theme, "Airborne Again," expressed optimism, but added a note of caution – that it would take at least until 2003 for the world economy to regain cruising altitude. What we had not bargained for was the discovery of corporate malfeasance of epic proportions, and the evaporation of trillions of dollars in shareholder equity. Then, as we entered the latter months of 2002, the drumbeat of war began to be heard, fuelling economic uncertainty and prompting us to downgrade 2003 to the status of "transition year." Our forecast title "Rough Crossing" was intended to reflect the sort of conditions businesses would face: volatility, water of uncertain depth, but still a sense that the destination was visible and attainable.

And now we find ourselves in 2003. The economic dynamics that produced the partial recovery in 2002 remain in place. Left alone, there is little doubt that 2003 would be better than 2002, and that 2004 would be even stronger. But the war in Iraq put many economic decisions on pause, whether by companies or by consumers.

Now that the war is over, and geopolitical tensions are beginning to ease, it is likely that most of those plans are being brought back into play and the global recovery will resume. For this reason, our spring forecast theme is "Recovery Interrupted," and with any luck our theme this autumn will be "Back on Track." But a longer war could transform a pause in the economy into a full-blown reconsideration of economic fundamentals – in other words, create a new negative growth dynamic at the global level.

The bottom line? The extraordinary level of uncertainty we face today is making economic forecasting much more difficult than in the past. The best approach to formulating a business plan in these circumstances is to evaluate the extremes that can arise, and put risk contingencies in place that will allow the business to survive under all scenarios. That way, if the world turns out to be a little better than forecast, everyone will be a winner. ■

Stephen Poloz (spoloz@edc.ca) is EDC's vice-president and chief economist.

EDC Contacts

Western Canada

Lewis Megaw
Regional Vice-President

Vancouver
Tel: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Ruth Fothergill
Regional Vice-President

Toronto
Tel: (416) 640-7600
Fax: (416) 862-1267

London
Tel: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel: (613) 597-8688
Fax: (613) 598-3811

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel: (709) 772-8808
Fax: (709) 772-8693

contactatlantic@edc.ca

International

Mexico
Marvin Hough
Regional Director for Mexico & Central America
Tel: (011) 5255-5387-9316
Email: mhough@edc.ca

Noé Elizondo
Regional Manager
Monterrey, Mexico
Tel: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel: (011) 55-11-5509-4320
Email: cescobar@edc.ca

Poland
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel: (011-48-22) 584-3240
Email: dgoresky@edc.ca

China
Alison Nankivell
Regional Director for China
Tel: (011) 86-10-6532-3536, ext. 3357
Email: anankivell@edc.ca

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
Tel: (613) 598-2500 • Fax: (613) 237-2690 • **www.edc.ca**

EDC's Magazine for Canadian Exporters

www.edc.ca

Fall 2003

ExportWise

tch a Rising Star

The rugged beauty of the polar regions is the playground of Karlsen Shipping's newest progeny, Polar Star Expeditions.

In This Issue

Canada: Indomitable Spirit and Beauty

A. Ian Gillespie
President and Chief Executive Officer

It can't be packaged in a box and shipped. It doesn't cross borders in the usual sense and, for many, doesn't fit the traditional concept of what an export should be. Nonetheless, it is one of Canada's most important export sectors.

It is Canada's tourism industry – contributing some $23 billion to our gross domestic product annually and employing more than 500,000 Canadians and what these businesses export is 'inbound tourism' which you may be surprised to learn accounts for one-quarter of our country's total service exports. Inbound tourism simply means that a foreign tour operator 'pays' a Canadian hotel, for example, with a voucher for each person they intend to book into that hotel. These vouchers, which are a promise of business and payment, are then considered to be 'receivables' which tourism companies can ideally use to access more capital from their banks to grow their businesses, similar to other companies with more traditional receivables.

Unfortunately, the industry has faced a number of setbacks recently, which has made accessing capital more challenging than ever. This is where EDC can play a role. We have been reaching out to Canada's tour operators to tell them about a product that can help to give them peace of mind and help them gain access to the capital they need.

It is called Accounts Receivable Insurance and it can help build confidence in a number of important ways. For example, it can help tourism operators better manage their credit risks because they can recover up to 90 per cent of their losses if their buyers fail to pay. It can also give them the confidence to offer their buyers more flexible payment terms and banks will often recognize the added security this insurance brings, allowing companies to use their insured receivables to free up more working capital. It's a win-win situation at a time when all elements of risk have to be weighed carefully before any business decisions are made.

Hopefully, this added security will provide Canadian tourism suppliers with the confidence they need to be more aggressive in marketing their services outside of Canada in pursuit of international business.

While the tourism sector continues to rise to new challenges, it is important for all of us to continuously promote and reinforce the image of Canada as a world-class tourism destination in all of our business dealings. We are, in truth a country of many faces: from wind-swept, snow-covered mountains to dramatic cityscapes that vibrate with intensity and energy. It is this diversity of landscape, people and culture that has and will continue to attract millions of visitors to Canada each year. From kayaking, skiing and an eclectic profusion of festivals, to quaint country inns and world-class resorts, Canada has something to offer every traveller.

Yes, Canada's tourism industry is proving to be as spirited as the country itself. It knows it has a good product to sell: a country of breathtaking beauty and indomitable spirit. It's everyone's job to add his or her voice to this effort. ■

A. Ian Gillespie, C.I.T.P.

ExportWise

Fall 2003

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Cover Photo: Doug Millar Photography / Ship image courtesy of Karlsen Shipping

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Only a Phone Call Away...

BY **IAN M. CLARKE**

Total Quality Management. Customer Relationship Management. Process Re-engineering. Learning Organizations.

Every few years a new management fad comes along. Some remain, some fade; but one recurrent theme in all the methods is that of customer service. The overriding importance of attaining and maintaining satisfied customers cannot be overvalued.

It is a lesson that EDC's Emerging Exporters Team has taken to heart. "It begins with a phone call," explains [illegible] Chenier, one of the team's 15 small business underwriters. "Last year we received, on average, 140 calls every day, and we personally responded to [illegible] percent of the calls within 20 seconds."

[illegible]

The Emerging Exporters Team was created in [illegible] with the objective of helping Canadian exporters who reported less than one million dollars a year of export revenue.

A small business may wish to export for a variety of reasons: the quest for new markets, domestic competition, or the pursuit of niche markets or partnerships. With just a small percentage of Canada's small- and medium-sized enterprises actively exporting, foreign markets can hold vast potential.

Chenier believes that the tone of the initial customer contact is critical to fostering a solid business relationship. "When people call us, they don't have to talk to an operator; they get connected immediately to an experienced underwriter who can answer questions about our products for small business. We can take applications for Accounts Receivable Insurance over the phone, for instance, or if a company is already an insurance customer, we can provide an approval on a foreign buyer."

Team members come from varied educational and professional backgrounds; combined, they offer more than 90 years of experience. In addition, each team member is fully bilingual and a trained expert in delivering assistance to small business. They remain current with private sector and government export programs that offer complementary services.

"Our approach is straightforward," says Linda Graupner, director of the team. "No company is too small to export, and no exporter is too small for EDC. Our training and research are geared to those smaller exporters. We know their concerns and we can offer applicable solutions – right over the phone."

In the international marketplace it is important to know if your buyers are creditworthy. The team helps Canadian

exporters by providing credit checks on foreign buyers, handling more than 10,000 credit checks a year, processing most requests in less than 24 hours.

The streamlined process

"The whole process may start with the customer asking themselves some basic questions," says Benoit Caron, an underwriter with the team. "For instance, they may ask, 'How do I know my foreign buyer will pay? What happens if they don't? How do I get the working capital I need to fill the order? What do I do if the buyer is demanding longer credit terms?' In all these situations, we can offer effective solutions."

From the initial phone call to application approval, the team has streamlined the research and approval process, listening to their prospects and customers, recording concerns and updating their own procedures. For example, EDC cut in half the start-up fee for first-time and smaller Canadian exporters who buy insurance policies (from \$500 to \$250) after market tests suggested that EDC's set-up fee was a barrier to coverage for new exporters or companies with modest export sales.

The majority of exporters calling the team require Accounts Receivable Insurance, which covers up to 90 per cent of their losses if a foreign buyer doesn't pay, provided the exporter has fulfilled their contractual responsibilities.

Underwriter Claude Prosser elaborates, "With our insurance coverage, a receivable asset usually can be converted into a bankable asset. The bank then uses the insurance as collateral and the producer is able to access a line of credit against that."

Insurance premiums are determined by such factors as the business sector, credit terms, the country being shipped to and the type of product being shipped.

The biggest success

The success of the Emerging Exporters team is based on customer service. In fact, cited in the team's Customer Satisfaction Survey for 2002 are such comments as: "Good level of understanding of needs, knowledgeable people to deal with, and prompt turnaround times," and "Any time that I've called for any reason, they are right at it and very responsive. I'm very satisfied." The team has collected stacks of similar remarks.

Graupner puts it in perspective. "Our team's biggest success comes when a customer exceeds one million dollars a year and we are able to turn that company over to an EDC sector team."

Last year, 62 emerging exporters were transferred to one of EDC's other business teams as their export growth brought them over the \$1 million mark.

That kind of success speaks for itself – and in this case – 140 times a day, five days a week.

The Emerging Exporters Team can be reached at 1-800-850-9626 from 7:30 a.m. to 8:00 p.m., EST. ■

"Last year we received, on average, 140 calls every day, and we personally responded to 93 per cent of the calls within 20 seconds."

— *Hubert Chenier,* EDC Emerging Exporters Team Underwriter

Photo Martin Lipman

Sitting Pretty

Photos: Courtesy of Arconas Corporation

BY **TERRI-SUE BUCHANAN**

[illegible]ign-speak – the lines are sophisticated … classic … clean. [illegible] intended effect? To instill a sense of calm. To exude comfort. [illegible] evoke the sensation of flight.

M[illegible] winner of the fourth annual [illegible] Canada" Design [illegible] by *Canadian Inte*[illegible] [illegible] commissioned product [illegible]-based Arconas [illegible] of North America's [illegible] and manufacturers [illegible] commercial [illegible] Arconas has also [illegible] the market of air- [illegible] through designs [illegible]

[illegible] Neufeld family in [illegible] ownership of the [illegible] of Winnipeg-based Palliser [illegible], Arconas thrives in an industry where design trumps price, competitively speaking. In fact, despite the ramifications of 9/11 and the economic slowdown, Arconas just came off its best year yet, signing on more new airport clients than any other year, including Boston's Logan as well as airports in the Turks and Caicos Islands, Dallas and Oklahoma City. Other clients include airports inVancouver, Winnipeg, Budapest and New York's JFK.

Arconas' success is due in large part to its deep pool of primarily Canadian talent, including designers such as Douglas Ball, whom Arconas commissioned to create Flyaway.

"Design means different things to different cultures," says general manager Pablo Reich. "To compete on the global stage, you have to address these global diversities in taste and style, not to mention differences in architectural size and scope."

It stands to reason then, that a nation so richly multicultural as Canada can impart the diversity of design required to please international tastes. For this reason, look for Canadian designers to begin exerting more and more influence on the international scene, according to Reich.

Airports are no longer simply locations for people to land and take off, they have become an actual destination of sorts.

In fact, it was their proximity to large design centres such as New York and Chicago that prompted the decision to pursue opportunities in the United States for their commercial seating products in 1974. The initial challenge was to build a solid U.S. presence, which they met by installing a showroom in New York in order to showcase their designs, an endeavour the Canadian Government helped subsidize for two years.

And while their designs had begun to attract international interest, the logistics of exporting furniture were daunting for a small company. To alleviate this pressure, they sought opportunities to sell licenses for their designs to countries such as Japan, which soon opened up the market for their commercial products. Additional export opportunities were facilitated through Accounts Receivable Insurance from EDC.

After obtaining a fairly good market share of Canadian airport seating solutions, however, Arconas realized that the only way to grow this particular line of business would be through an aggressive approach to exporting, particularly in the United States. Basic math … there are only so many airports in Canada.

Fortunately, airport authorities are inherently 'global thinkers' and do not automatically rely on local suppliers. In addition, airports are no longer simply locations for people to land and take off, they have become an actual destination of sorts. As such, the trend is toward more design-oriented airports that offer passengers a comfortable environment that is also appealing to the eye. This leaves a design-centric company such as Arconas well positioned for further incursions into the international market.

While Arconas is currently the only Canadian company aggressively pursuing seating projects for international airports, the industry is becoming more competitive, with the bulk of players hailing from Europe. To secure their position, Arconas is now becoming more efficient in terms of manufacturing. Through Palliser, Canada's largest home furniture manufacturer, Arconas now benefits from access to a global network of suppliers and thus, large economies of scale. By developing a supply chain of manufacturing components in Europe and Asia, Arconas is now in a position to export finished goods.

The name Arconas is derived from the Greek translation for 'Innovative Leader' – a philosophy which guides their design and manufacturing processes.

COMPANY PROFILE

Business: Airport, commercial and hospitality seating solutions
Locations: Mississauga, Winnipeg
Established: 1972
Employees: 35
Exports: 60 per cent
Export Markets: U.S., Caribbean, Japan
Contact: www.arconas.com

Analyze This

BY **TERRI-SUE BUCHANAN**

Every physical process has a signature.

A process can be simple, such as crimping connectors on the ends of wires. And a process can be complex, such as verifying ignition and fuel systems in engine assembly. Regardless, if the process is carried out properly, the signature is repeatable.

More specifically, if you measure the right parameters during the process, you get an electronic signature that characterizes the process. If you analyze these signatures with the right mathematics, you can generally tell if the process is operating correctly. Signature Analysis 101.

When do you apply signature analysis technology? When you want to ver-[illegible]lity and identify defects before your [illegible]t leaves the manufacturing floor.

[illegible]nature analysis can be applied to identify defects within a manufacturing [illegible] dissecting test waveforms [illegible]ir distinctive parts and com-[illegible]levant aspects of these waveforms [illegible]ose for an error-free process. [illegible]mple, when manufacturing an [illegible]ile engine, if you apply sensors [illegible]rious parameters at each step [illegible] then look at the electronic [illegible] envelope that comes out of [illegible]or, you can check for defects [illegible]ge – a procedure referred to [illegible]ess Verification.

[illegible]d Sciemetric Instruments [illegible]veloped this type of signature [illegible]gy and currently boasts [illegible] Fortune 100 customers, including Ford, General Motors, DaimlerChrysler and Hewlett-Packard, as well as plants manufacturing vehicles, engines, auto components and general industrial products.

In fact, many customers view them more as partners than vendors. When they first applied the technology to Ford engines (Ford at the time was considering moving away from end-of-line testing), there was no method to do so. Between the two companies, they ultimately reshaped the engine quality verification process to In-Process Verification.

Sciemetric began by developing data collection and analysis technologies for university and research institute laboratories in 1981. They switched gears in 1991 to focus on private industry, which was hungry for technology to verify quality, and clearly had more of a commercial drive. 1992 saw the creation of their first in-process test systems based on a new defect detection technique, signature analysis, initially developed for air bag testing.

Sciemetric's technological edge over the competition is the ability of their signature envelopes to "float" with natural deviations in the process, where most competitors are absolute envelopes. "Temperature, lubrication, all sorts of parameters can affect the way materials behave, therefore, the testing process has to have a certain tolerance. But it must also be able to pick out that needle in a haystack when it is, in fact, a defect – sensitivity versus tolerance," says founder and chief technology officer, Nathan Sheaff.

They continue to lead the field through their engineering and software development capabilities. The product line has evolved over the years to include a range of defect detection systems and applications based on their InspeXion® software platform, as well as their QualityWorX® software family of Product Quality Intelligence systems.

"The value proposition of Sciemetric is driven by lower defects, improved throughput, reduced warranties and reduced recalls," says Sheaff. "If you can eliminate these, it's an enormous savings for the manufacturing process."

Given a stringent tightening of acceptability, and a universal manufacturing standard, Six Sigma – which strives to achieve a tolerance of approximately three defects per million – has been heavily adopted by the auto sector. Sciemetric technology enables companies to implement and achieve Six Sigma in their quality performance.

"The auto industry embraced this standard because of the volumes they produce – 60 million vehicles a year," notes Sheaff. "As such, given the liability and competitive pressure, quality has become a touchstone of their product."

COMPANY PROFILE

Business: Designer of systems and software for In-Process Testing in manufacturing plants
Locations: Ottawa, Detroit, Windsor, Dayton, Salt Lake City, U.K., representatives in Continental Europe and Southeast Asia
Established: 1981
Employees: 100
Exports: 95 per cent
Export Markets: U.S., Europe, Asia
Contact: www.sciemetric.com

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WFORD

all heard of corporations being
deals, and human rights issues.
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Photo: Doug Millar Photography

headquartered in developed countries, not developing countries. This means that even though research suggests that the most corrupt countries are amongst the poorest nations in the world, corruption happens right here in our own backyard. This is despite the fact that we here in North America have many laws in place to combat such behaviour.

For example, recently under Canada's *Corruption of Foreign Public Officials Act*, a U.S. citizen was convicted and sentenced to six months in jail for accepting bribes. He was a senior immigration inspector working in Calgary for the U.S. Immigration and Naturalization Service. He accepted payments from a Canadian company to ease the flow of personnel from that company to and from the U.S. and to restrict the employees of the competitors. These restrictions caused the financial ruin of two competitor companies whose personnel were prevented from getting to their jobs.

Being investigated for corrupt practises can cost upwards of US$5 to $10 million. Investigations are so all-consuming that employees are distracted from the core business.

How can a company protect itself, especially when faced with the variety of agreements, policies and treaties from the World Trade Organization, the Organization for Economic Cooperation and Development, the Council of Europe, the United Nations, not to mention the laws of individual countries?

For many larger corporations one of first steps is to have clear policies and processes in place that cover everything from disclosing conflicts of interest for employees and Boards of Directors, to the ethical conduct of customers with whom they deal. To support these policies, corporations are ensuring that they have solid processes in place and practical training for all employees.

Along with this, the trend is to put a corporate 'watch dog' in place. These positions are called ombudsmen, ethics officers, or compliance officers. Regardless of the title, these people act as the company's conscience, ensuring that its policies and guidelines are adhered to and that customers and advocacy groups have access to an independent review when compliance is questioned. These compliance programs introduce a layer of integrity into the process.

Building this kind of corporate integrity can be difficult for smaller companies because they don't have the money or staff to institute such programs. However, this problem is not insurmountable. Here's a few things smaller exporters can do to protect themselves and their companies:

- Transparency International (TI) has a list of 90 countries ranked from "corrupt" to "most corrupt." www.transparency.org.
- TI also provides a list of sectors they feel are more susceptible to bribery in business which includes defence, aviation, oil and gas, construction, and government procurement. Your risks are considered higher if you work in these fields.
- A survey of 137 multinational companies reports those most at risk are country managers (59.1 per cent) and business development/sales managers (30.9 per cent).
- Check out the person you hire. Use Transparent Agent and Contracting Entities (TRACE), a non-profit organization that collects data on agents. Companies pay a small annual fee and non-governmental organizations get the service free.
- Be prepared to spend time with the people you hire, outlining the company's ethical practises. Most important, make yourself available so that any sticky decisions are brought to your attention.
- Any expenses must be clear, justifiable, customary and legal in that country.

There is no need to wait for the next disaster to strike. Companies should be proactive and learn from the mistakes of others. ■

Alison Lawford (alawford@edc.ca) is EDC's compliance officer.

EDC's compliance program was established in January 2002 so that stakeholders could satisfy themselves as to the integrity of EDC's corporate social responsibility policies related to the disclosure of information, environmental reviews, human rights and business ethics.

For more information on the role of the compliance officer and to access an electronic 'Request for Review' form, visit www.edc.ca/compliance

Stats on the States: Canadian Craft Artists in the American Market

BY **DENNIS** AND **SANDI JONES**

If you're a Canadian creator of fine art and crafts, you're probably aware that the road to success is not an easy one. What makes it particularly difficult is the size and distribution of our domestic market; it's relatively small and tends to be concentrated in major cultural centres such as Toronto, Vancouver and Montreal. But even in these centres, craft artists who are creating one-of-a-kind, quality work can face severe challenges in sustaining their careers. So it makes sense to look for a larger market, and an obvious one is the United States. Encouragingly, a recent survey by the U.S.-based Craft Organization Development Association (CODA) reveals that the yearly total of handmade craft sales in America is an astonishing $14 billion. That clearly offers a rich opportunity for Canadian artists willing to venture into exporting.

The export solution

Dana Boyle agrees. A business development officer with the Canadian Consulate General in Minneapolis, Boyle is experienced in promoting fine Canadian crafts in the U.S. "You have an accepting market there," she says, "and a well-developed marketing system. The U.S. has many more galleries than Canada, and many of them are familiar with the language of craft. Better yet, the American market is definitely interested in the work of Canadians."

Working with an American gallery is a common method of penetrating the U.S. market. But an excellent portfolio alone won't likely persuade a gallery to represent you – self-promotion is essential, too. "You can't be overly modest," Boyle advises. "You have to promote your work. This is outside the comfort zone for many artists, but it's the only way to catch the eye of the buyers and the gallery owners."

Susan Greene and Miska Têtu, of the Department of Canadian Heritage's Trade Routes Program, agree that a significant amount of legwork is necessary for success. "Just saying you want to go to the U.S. isn't specific enough," says Greene. "You need to identify a city and then do solid market research on that city, which can involve calling galleries directly and talking to Canadian government officials located in the region."

A relationship with a gallery is highly recommended, adds Têtu. "It lets you concentrate on the art while the gallery does the marketing and selling," she points out. "It also helps when the gallery knows the market and knows other galleries it can contact about your work."

Will a gallery help expedite the movement of your work across the border? According to Têtu, it depends on the gallery and in most cases they will. But it's not a bad idea to get to know the issues you may have to deal with, such as finding a good customs broker, getting the correct classification code for your work and coping with customs regulations and U.S. immigration laws.

On with the show

Besides galleries, retail shows of quality contemporary crafts are a second major export channel. The two Sculptural Objects Functional Art (SOFA) shows, for example, are held annually in New York and Chicago and are probably the most important American fine-craft events of the year. All their participants are galleries, so your work must be carried by one of these to achieve this level of exposure.

Other shows, like Chicago's One of a Kind® Show, are for individual artists. However, according to Robin Mader of the Department of Foreign Affairs and International Trade (DFAIT), there are complications for Canadian craftspeople who want to market their work in such shows. "Non-American artists," Mader warns, "are not allowed to collect payment in the U.S. when their work is sold there. There must be an American intermediary involved, so an artist should look carefully into this issue. We've also had artists prevented from attending shows because they weren't aware of the regulations and were turned back at the border."

Têtu also strongly recommends that you document your work, with photographs and descriptions, before it heads south. Otherwise you may have problems getting it back into Canada, and it may be a long time before you see it again.

Making it in the Midwest

But success is possible despite the complications, and the Northern Mosaic Collective has proven it. Based in Thunder Bay, Ontario, the collective's nine artists worked closely with Dana Boyle to expose their work in the U.S., starting in Minneapolis. Vic Germaniuk, informal spokesperson for the group, has been involved from the beginning.

"After three years of preparation," says Germaniuk, "we were invited by the Canadian Consulate in Minneapolis to have a mini-exhibition in the consulate. We had a round table attended by some pretty big players from the Minnesota art scene." Paradoxically, the success in Minneapolis fed back into recognition in Canada, with an exhibition in Winnipeg. "And now," Germaniuk continues, "because of Minneapolis and Winnipeg, we're having a show in Grand Marais, Minnesota. The town has a huge art community and it's a destination for a lot of very wealthy people. We also have a gallery in St. Paul (Minnesota) that wants us, so we're opening down there also. We've noticed that many doors have opened because of the group's higher profile, and individual members have been offered personal exhibitions in galleries as a direct result of this."

Taking the leap

Contemplating a plunge into the export trade can be daunting for anyone. Fortunately, though, there's help for novice exporters. Team Canada Inc (TCI) is the first place to contact, since it's a gateway to resources for all types of export markets. Another key source of assistance is the Department of Canadian Heritage's Trade and Investment Branch, which has cultural trade commissioners in New York and Los Angeles. You can also request advice from the Canadian Embassy in Washington and from the 12 Canadian consulates in cities across the U.S.

Finally, every exporter of fine crafts should have DFAIT's *Marketing Guide for Fine Contemporary Craft in the United States*, which covers everything from portfolios to business visas. It also includes a detailed list of 140 American galleries, including the kinds of work they represent and their contract terms.

Canadian fine crafts are among the best anywhere. By striking out into the U.S., Canadian artists can both prosper and show that they're entrepreneurs who can compete successfully in the biggest market in the world. ■

Who to Contact

Team Canada Inc (TCI): www.exportsource.ca; 1-888-811-1119

Canadian Trade Commissioners Service: www.infoexport.gc.ca; 1-800-551-4946 or (613) 944-4946

Canadian Heritage: www.pch.gc.ca; 1-866-811-0055

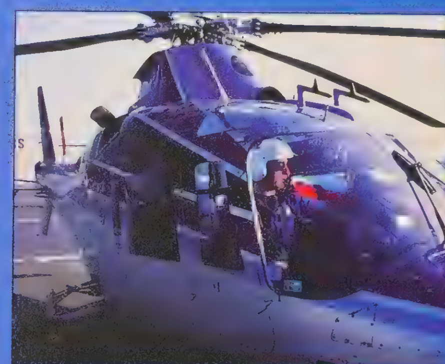
Trade Routes Program: www.pch.gc.ca/routes; 1-819-956-9422

To obtain the *Marketing Guide for Fine Contemporary Craft in the United States*:
DFAIT Enquiries Service, 1-800-267-8376 or (613) 944-4000

Atlantic Provinces:

Taking Their Place in the New Economy

BY BRENDA BROWN



Where's the most promising place in Canada to set up and operate a business today? It's Atlantic Canada, according to a study by the consulting firm KPMG, which compared business costs in the Atlantic Region, Canada as a whole, the United States and five European countries.

Of 42 cities examined in seven countries, the four least costly business locations were: St. John's, Newfoundland; Halifax, Nova Scotia; Charlottetown, Prince Edward Island; and Moncton, New Brunswick.

This comes as no surprise to David Surrette, EDC's regional vice-president for the Atlantic region, who maintains that business activity in this area of Canada, especially in the knowledge-based industries, is on the rise.

"The region is caught in a transition phase between dependence on traditional resource-based industries which have long supported these communities, to a new economy embracing innovation and technology," Surrette says. "It's not going to be an easy or quick transition but the signs of progress are encouraging."

Witness the 20th edition of the Atlantic Provinces Economic Council's (APEC) *Atlantic Report*, which ranked 245 projects in various stages of development across Atlantic Canada according to their likelihood of being developed. Valued at a total of $45.5 billion, energy investments dominate the list, with oil and gas projects accounting for about 40 per cent and electricity sector a further 18 per cent.

Another sign of progress at the local level is Prince County of Prince Edward Island where, like many other Atlantic communities, agriculture and fishing are the traditional twin foundations of the economy. Today, the economy is showing clear signs of diversification. For example, the community turned the crisis of a military base closure into a successful development initiative called Slemon Park. The park is now home to aeronautics and information technology firms.

Additional APEC research reports that Atlantic firms are close to the national average in terms of the number of firms innovating and adopting new technology. However, total research and development (R&D) and overall productivity levels are below the national average. Part of the gap can be explained by the small share of R&D undertaken by the region's private sector, about 17 per cent, compared to a national average of 58 per cent.

"Encouraging R&D, increasing productivity and attracting foreign investment capital are the key issues facing the Atlantic provinces in the coming years," says Surrette. "This is closely tied to the need to encourage companies to export, because studies show that R&D and productivity rise among exporting firms, with resulting growth of up to four times higher. All of these factors interconnect and provide the roadmap for future success."

Despite the relatively low cost to establish a business in the Atlantic, foreign investment in the region amounts to no more than five per cent of the national total, lower than the region's share of GDP (six per cent) and population (eight per cent). The U.S. is the largest source of investment in the region, followed by the U.K. The majority of this foreign investment goes to resource industries, manufacturing, retail and services sectors. Operations range from small local offices to large plants and offshore installations.

"We need to more aggressively promote the economic advantages of setting up a business here, in addition to the ready access to skilled workers and renewed investment in providing an adequate transportation infrastructure and secure border access," says Surrette. "It also goes beyond that hard cash investment decision. We also offer quality of life, education and medical care – just to name a few other tangible benefits."

And it's clear companies are getting the picture. Nova Scotia points to companies such as EDS Canada, Convergys Corporation and Register.com who are among the latest international companies to call the province home. Halifax, the province's capital, has the largest percentage of people (25 per cent) with post secondary degrees of any major city in Canada and the province boasts a full digital telecommunications network – both drawing cards for foreign investment.

Helping companies prepare for exporting is where EDC can play a key role. EDC has established local offices in most major centres and has developed key partnerships with provincial and federal governments and the financial community so that exporters can access local trade experts and the financial support they need.

"We provide international trade expertise and a network of people that can help companies get to where they need to go. We can help exporters access market intelligence, working capital, insurance and bonding – all the tools exporters need to do business internationally," adds Surrette.

Exporting trends are definitely on the rise in all four Atlantic provinces. International exports from Newfoundland and Labrador recorded impressive growth of 60 per cent in 2002, driven by a 123 per cent increase in energy exports. This sector will again prove to be the key contributor to growth this year, as increased prices and production drive foreign sales. A healthy expansion is also expected in industrial goods, and to a lesser extent, in the agri-food industry. P.E.I. was only one of three provinces in the country to record growth in international merchandise exporters in 2002, Nova Scotia is expected to boast a healthy 11 per cent increase in 2003, and New Brunswick a respectable six per cent. ■

Catch a Rising Star

BY TERRI-SUE BUCHANAN

Not every travel destination includes sandy beaches, tropical fruit and stifling heat. Some more adventurous travellers prefer the unspoiled charm of Antarctica, or the Chilean fjords, or the coastal islands of Norway, and the opportunity to witness ice floes, whales, walrus, and maybe even an elusive polar bear.

The North Atlantic, the Falkland Islands, the Arctic Circle, Greenland … exotic destinations of the polar kind. While some may find these remote regions intimidating, others are captivated by their rugged beauty, including [illegible] Karlsen, president and chief executive officer of Halifax-based Karlsen Shipping Company Ltd. Founded in 1940, the company provides support vessels for the off shore industry.

Karlsen first became enthralled with the polar regions when he chartered a vessel to tour the islands north of his native Norway several years ago. This tour spawned the idea for Karlsen's newest progeny, Polar Star Expeditions, an adventure travel company operating tours to the globe's more remote regions, including the Arctic and Antarctica.

After buying out his Norwegian partner in 2001, Karlsen took full control of Polar Star Expeditions and moved operations from Norway to Canada. As much as Karlsen had mastered the shipping industry, this venture was somewhat risky as the company had no previous experience marketing a tourist-related product where the customer comes first.

"The funny thing about human cargo," says Karlsen, "is that they are somewhat more demanding than produce or appliances. You have to feed them, entertain them, keep them safe. This reality required a completely different mentality from top to bottom, and that attitude shift had to start with me."

After hiring a representative from Oslo to train local employees, Polar Star Expeditions now has a full-fledged operation in Halifax, including sales and marketing, and have subsequently "Canadianized" the organization, administering both tour operations and ship management entirely out of Halifax.

The search for an appropriate vessel to convert, however, took five years, culminating in the purchase of an ex-Norwegian icebreaker. The retrofit to a passenger ship involved comprehensive renovations to equip the vessel with such creature comforts as cabins, an observation lounge, social bar, library, dining room, infirmary and gymnasium.

While researching financing options for the retrofit, Karlsen turned to EDC. EDC offered financing to Karlsen's foreign affiliate on the condition that the conversion take place in Canada.

This resulted in several hundred local jobs during the retrofit at the Karlsen shipyard in Halifax, in addition to hiring subcontractors such as furniture builders from Quebec and other suppliers from Ontario. As the permanent base for all refits and annual maintenance, another 50 to 100 locals are employed every year for several weeks, and even more during dry docking every second year. As well, all main items required to outfit the vessel come from local suppliers.

As a niche market with tremendous growth opportunity, the first Arctic tour was launched in June 2001 and the first Antarctic trip in the fall of that year. Now in its third year of operations, business is growing steadily. The client base for Antarctic tours is about 60 per cent American, 30 per cent Western European and 10 per cent Canadian, with a growing Asian client base.

Polar Star Expeditions limits the number of passengers to about 100, the Antarctic restriction for zodiac landing crafts, which ferry passengers to some of the more inaccessible areas. As such, the cost per passenger is higher than mass cruises but, unlike other cruises, the typical passenger for polar cruises generally does not want to be on a ship with 1,000 passengers.

In fact, a typical Polar Star passenger is over the age of 50 or retired, and primarily interested in the allure of the region and the educational aspect inherent to polar cruises. Unlike many pleasure cruises, the vessel itself is not the main draw – it's the adventure.

Over the last few years, they have developed successful relationships with wholesalers as well as a channel for direct sales to end users. European sales operate through a network of distribution channels including travel agencies that sell the product directly on commission, as well as tour operators that purchase allotments, usually 10 to 15 cabins a year in advance and sell as wholesalers.

"You need to get your feet wet (no pun intended) and move your product to be taken seriously," says Karlsen, who knew they would have to pay their dues when they entered this industry. The serious players – tour operators and wholesalers – generally line up work two years in advance.

Their main competition comes from foreign, mainly Russian, government-owned companies. Currently, there are no other Canadian companies who both own the vessels and act as tour operators. There are, however, many Canadian tour operators that charter the Polar Star, such as Adventure Canada, with whom they circumnavigated Newfoundland as a joint venture last year.

With several contracts currently under negotiation, Karlsen has made significant inroads with American non-profit and educational travel organizations. With additional plans to market Polar Star Expeditions to university alumni associations with extensive educational travel programs for members, Karlsen is confident that much more business will arise from this sector.

The Arctic seasons 2004 through 2006 looks so good in fact, that they are currently shopping around for another vessel. ■

COMPANY PROFILE

Business: Karlsen Shipping – Ship managers and agents, off shore vessels
Polar Star Expeditions – Expedition style passenger cruise ship.
Location: Halifax
Established: Karlsen Shipping – 1940
Polar Star Expeditions – 2001
Employees: Karlsen Shipping – approx. 50
Polar Star Expeditions – approx. 35
Exports: 95 per cent
Export Markets: Antarctica, South America, Europe (U.K./Norway), Arctic region
Contact: www.polarstarexpeditions.com

Shipbuilding Industry

BY **STEVEN TURNER**

Industry outlook

Over the past two decades, the Canadian shipbuilding industry has been restructuring. Heavy foreign investment in Canada's competing markets has forced Canadian shipbuilders to seriously reconsider their business model.

Canadian shipbuilding exports have increased steadily from $17 million in 1996 to $56.1 million in 2001. This increase is due mainly to the ability of Canadian exporters to focus on key niche markets, such as off-shore oil support vessels and tugs, which accounted for more than 55 per cent of the Canadian export market in 2002.

Unlike their American counterparts and various other foreign markets, the Canadian shipbuilding industry does not benefit from large civil and military government contracts. Canadian dry docks are also generally smaller in size than their foreign counterparts and must, therefore, concentrate their attention on smaller contracts, such as building smaller specialized ships and retrofitting ships.

Opportunities

The main growth sector in Canadian shipbuilding continues to be in value-added, custom products. Due to its size, the Canadian market must continue to rely on its technological expertise, rather than on its brute strength. With foreign markets quickly gaining on Canada's outstanding specialization expertise, the focus of the Canadian industry has to be in remaining ahead of the curve, building small specialized commercial ships, and retrofitting larger ships, improving on their original design.

Key issues to watch

In an attempt to level the international playing field, Industry Canada has taken a number of measures. First was the introduction of a Structured Financing Facility for Shipbuilding (SFF). This program offers interest rate and credit insurance support for up to 15 per cent of the purchase price to companies who purchase Canadian shipbuilding products. This measure is hoped to bring the Canadian industry in line with its foreign competitors.

The second was the formation of the Shipbuilding and Industrial Marine Advisory Committee (SIMAC) in January 2003. SIMAC is a diverse group of industry experts who make recommendations to the government on policies and initiatives to develop a more competitive shipbuilding industry in Canada. ■

Photos: Courtesy of Spielo Gaming International

Spielo Gaming International:

Winner Takes All

BY **TRISH EDWARDS**

People today are placing a higher value on life balance, and when they're not working, many want diversion. Baby boomers with larger disposable incomes are flocking to movies, theme parks, casinos and the like in their spare time and on holidays. Even younger generations, who have grown up with all the bells and whistles of emerging technologies, are looking at these avenues to be entertained.

All this adds up to more opportunity for companies such as Moncton, New Brunswick-based Spielo, a trusted global provider of high technology lottery and gaming solutions, with products ranging from video lottery terminals (VLTs) to central systems, online lottery terminals and a variety of lottery-related services including management consulting, product servicing and training. There's tremendous potential for growth in the gaming industry, and the company seems to be well-positioned to meet its target markets.

The future has never looked brighter, confirms Jon Manship, Spielo's chief executive officer. Manship launched the business in 1990 and in just 13 short years, it has expanded operations from the Maritimes into the rest of Canada, the U.S. and Europe.

"Spielo's success is a combination of great people, good business decisions and going to market at the right time and with the right product," says marketing director Carol Holmes. "The key has been our strategic approach to planning; we have had an enviable history of reliable forecasting. We started exporting almost right away and were able to use these skills to target where the market was growing."

The company's first export market was Europe. "There was a learning curve – shipping details, legislation, etc. – but we quickly learned that there are many resources available such as EDC and other government agencies. The feedback and ideas we've received from these sources has been helpful and our overseas embassies have also been supportive."

Although competition is increasing, gaming technology in Canada is still a relatively small industry. Over the years, Spielo has looked to other countries, many of which are more evolved technologically than Canada, to learn and adopt some of their know-how.

"Canada is still seen as a country of natural resources," says Holmes. "We need to start attracting companies and others to invest in Canadian technology and R&D. We do have a good resource base, but companies and governments need to find ways to let the world know that there is more to Canada than just that. We have vibrant technology developments and resources; we are technology-oriented and can add a lot of value."

Doing business with this company is no gamble!

Despite growing competition, Spielo is well positioned because of its innovative technology and customer service approach.

"Our strength lies in two areas: research and development and client relationships," says Holmes. "We're an R&D shop developing technology to help lotteries sell their products, ranging from hardware to software to management consulting services, depending on our clients' needs. Our innovation and technology helps them increase sales and perform better."

Spielo works with customers on

product development, turn-key facilities management, project design and management, technical support and training, believing that long-term client involvement is the key to mutual success.

"In any type of business, there are corporate responsibilities," says Holmes. "We support government initiatives to keep these forms of entertainment well managed and well controlled in order to allow communities to benefit. Don't forget that these lotteries raise money to support good community-based causes. We are also continually working with clients to develop and to take this responsibility into consideration."

For example, to address concerns about gambling, Spielo works with pre-eminent researchers of problem gambling, and has provided VLTs and games to university psychology labs over the years for on-going research. The company is also a founding partner of New Brunswick's Committee for Responsible and Regulated Gaming.

What's in the cards for Spielo?

The company plans to continue attending international and North American trade shows, as well as working sessions like an upcoming one involving top representatives of European lottery organizations in Prague, and the World Lottery Association meeting in the fall, to bring forward issues and concerns to the industry.

As Spielo continues to grow, they expect to hire another 100 employees over the next few months, which will double their facility size over the next year. This period will also see the unveiling of many new product lines. ■

COMPANY PROFILE

Business: Design, manufacture and distribution of gaming technology solutions

Locations: Moncton, Rhode Island (sales office), Sainte-Anne-des-Monts (manufacturing plant)

Established: 1990

Employees: 400

Exports: 80 per cent

Export Markets: U.S., Europe

Contact: www.spielo.com

Gaming Industry

BY TERRI-SUE BUCHANAN

Industry outlook

Legalized gaming is one of the fastest growing sectors in the United States economy today, primarily due to an increase in the number of bingo halls, state lottery systems (including video lottery), parimutuel race tracks, and off-track betting.

According to Statistics Canada, growth in the Canadian gaming industry is also outstripping that of most industries, bringing such economic benefits as increased revenues and employment to many regions. Although some communities have not embraced the arrival of casinos and video lottery terminals, most households in Canada do participate in and spend money on some form of gaming activity.

While lottery sales in Canada have remained relatively constant at about \$6 billion annually, other forms of gaming, including casinos, racinos and VLTs, have grown considerably over the past few years, according to consulting firm KPMG. The average amount spent per capita on lottery products, VLTs and casinos/racinos in Canada during 2002 was \$577, ranging from a low of \$396 in P.E.I. to \$781 in Alberta.

Emerging issues, however, include balancing the social cost with the economic benefits, with many regions promoting the concept that to have a progressive, successful gaming industry, responsible gaming must be integrated into all gaming activities.

Opportunities

As charitable gaming continues to grow, the need for technology is increasing drastically, particularly those that facilitate Internet-based gaming, e-commerce transactions, business intelligence software and wireless gaming software. Lotteries, found in the majority of the American states, have increased the pressures on state governments to aggressively promote and compete with new and innovative lottery production.

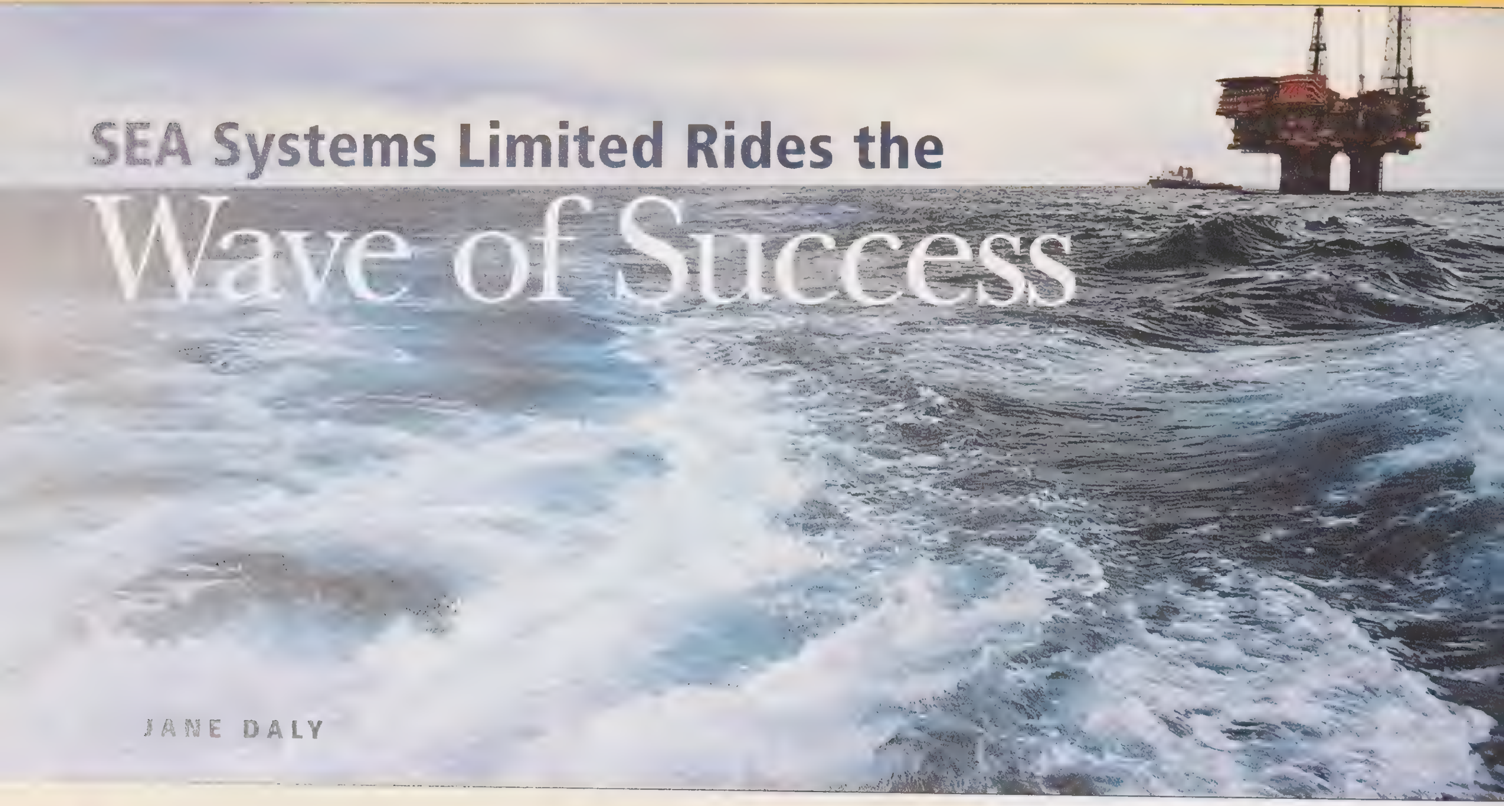
According to Datamonitor analysts, more than 200 million people in the United States and Western Europe – 80 per cent of all wireless phone users – will play online games using wireless devices by 2005. The wireless gaming market in the U.S. and Western Europe alone is expected to be worth US\$6 billion in the next four to five years. Recent research shows that entertainment-related use accounts for 52.5 per cent of overall mobile phone use in Japan, primarily through the widely popular i-mode service.

Key issues to watch

This is a highly regulated industry. In addition to policing functions, a broader and far more important role for government regulation is determining the scope and manifestation of gambling's presence in society and thus its impact on the general public.

Governments have considerable control over the benefits and costs that legalized gambling brings, by specifying the number, location and size of gambling facilities; the types of games that can be offered; and the conditions under which licensed facilities may operate. In 1999, both the U. S. National Gambling Impact Study Commission and the Australia Productivity Commission recognized the potential economic benefits of gambling, and have urged governments to adopt policies to limit the social costs.

The implementation of various smoking by-laws across the provinces and states is also hampering activity. ■



SEA Systems Limited Rides the Wave of Success

JANE DALY

If you have an idea for a business venture, but don't have the courage to take the plunge, the story of Newfoundland's SEA Systems Limited will give you the inspiration you need. SEA Systems is a true example of how a small local company can – with the right expertise, relationships and perseverance – compete and expand in the international marketplace.

In the early 1980s, when programmable logic control systems were first being introduced, Art Garland, currently president of SEA Systems, and four friends noticed that control panels and systems associated with this technology were being supplied by other provinces such as Ontario and Quebec for use in Newfoundland companies.

"We wanted to create that technology right here in Newfoundland," says Garland, and in 1983, Systems Engineering and Automation was born with zero capital and two employees. Later, as revenues permitted additions to the payroll, the remaining three partners left their day jobs to join the firm.

Their first project was to create a control system for a mining company, and in true grass-roots fashion, it was built in a basement and funded out of pocket by the partners. During the weeks leading up to Christmas 1983, the partners spent every evening building the system, much to the dismay of their wives. "We got it shipped out the door on Christmas Eve. "Our spouses said, 'You left a good job for this?' but the partners were ecstatic," laughs Garland. Undaunted, the entrepreneurs were eager to expand to other business sectors, such as pulp and paper, shipbuilding and marine.

But success was not instantaneous. "We were ahead of our time in Newfoundland," Garland admits. From 1984 to 1991, growth in the local market was limited compared to the cost of maintaining such a high calibre of technical people, and SEA Systems' revenues remained fairly steady at around $1 million annually, with creditors and banks consuming more time than valued clients.

Then, in 1991, the company restructured as SEA Systems Limited, to attract the growing needs of the oil and gas industry. Finally, the tide began to turn, and in 1992 the company landed its first contract with the Hibernia Offshore Oil Project. After completing several systems and forming joint ventures with companies in Norway and the U.K. for Hibernia, SEA Systems Limited had the expertise to take on the Terra Nova offshore oil platform project, building all of its control and safety systems. "I've heard it said that we built the brains of that vessel," Garland says, with obvious pride.

Moreover, relationships forged on the Terra Nova project proved valuable. In fact, it was a relationship with Kellogg, Brown and Root (KBR) that enticed SEA Systems to expand to Brazil.

"It's unusual for a company from St. John's to move into Brazil before going to business centres closer to home, such as Houston or Calgary," says Garland. "But after learning that KBR had landed a contract to build two offshore platforms for Petrobras, the Brazilian government-owned oil company, we decided to pursue that opportunity."

"We took several months to evaluate the market and learn about doing business in Brazil," Garland says. That included talking to the Canadian Consulate, EDC, Canadian Commercial Corporation and other government agencies, as well as to other companies doing business in Brazil.

They also hired an agent, which Garland says is a must. "They have all the connections and can increase your chances of getting business."

Rather than building their own company from the ground up, SEA Systems acquired a majority shareholding in a local Brazilian company that was already on the supplier list of Petrobras. Operating as Unicontrol International, they won contracts to supply the engineering and manufacturing of the control and safety systems for both KBR Offshore Platforms, and are on the bidder's list for three more platforms this year.

Brazil was the first time SEA Systems used EDC's Accounts Receivable Insurance, allowing its bank to broaden support and increase SEA Systems access to working capital. "EDC was critical to getting the contract in Brazil," says Garland. "As we expand out into the marketplace we will use EDC more." SEA Systems has already entered into Houston, with plans to expand to Montreal, Calgary, Singapore and Korea.

The company started by five guys in a basement now has annual revenues of $35 million and employs 150 people in four locations. "It goes to show you that the oil and gas sector is truly an international market, and when you become recognized in the industry, the possibilities are endless," says Garland. ■

COMPANY PROFILE

Business: Designs, manufactures and integrates controls and automation systems for the industrial, marine, oil and gas, utility and municipal sectors worldwide

Locations: Newfoundland, Nova Scotia, Texas, Brazil, with plans to expand to Montreal and Calgary and develop joint ventures to expand to Singapore and Korea

Established: 1983

Employees: 150

Exports: 60 per cent

Export Markets: Brazil, U.S., Korea, Singapore, Norway and U.K.

Contact: www.seasystems.nf.ca

Offshore Production Platforms

BY **TERRI-SUE BUCHANAN**

Export outlook

Across the world, oil and gas is being found and produced in ever-deeper waters. Here, water depth, ocean currents and harsh weather conditions can influence the decision of which type of production installation to use. A fixed installation may not be technically feasible in a particularly challenging location where a floating unit would offer the best solution.

As such, new technology is emerging at a rapid pace in the development of new concepts for offshore platforms. In the last decade there has been a shift away from traditional, bottom-based offshore production platforms to floating systems.

In fact, the trend towards floating production units is becoming the global production method of choice. Floating systems are also a cost-effective solution in developing smaller, satellite or marginal fields in shallower water as they can be floated off when reservoirs are depleted, and re-used elsewhere. The benefits of "recycling" such facilities are both economic and environmental.

Simpler concepts for lower investment costs, lower running costs and maintained operability is the continuous objective of offshore oil and gas industry.

Opportunities

As the offshore oil and gas industry expands into deeper waters, so does the requirement for associated technologies. Many opportunities exist for Canadian companies to export their technological expertise, as Canadian companies are internationally recognized for their design and implementation of advanced technological solutions.

Over the past five years, capital expenditure on floating production systems has totalled some $20 billion, but over the next five years, this is forecast to increase by more than 50 per cent to $32 billion, according to a recent report by offshore field data specialists Infield Systems. Annual spending is expected to soar to more than $9 billion in 2004.

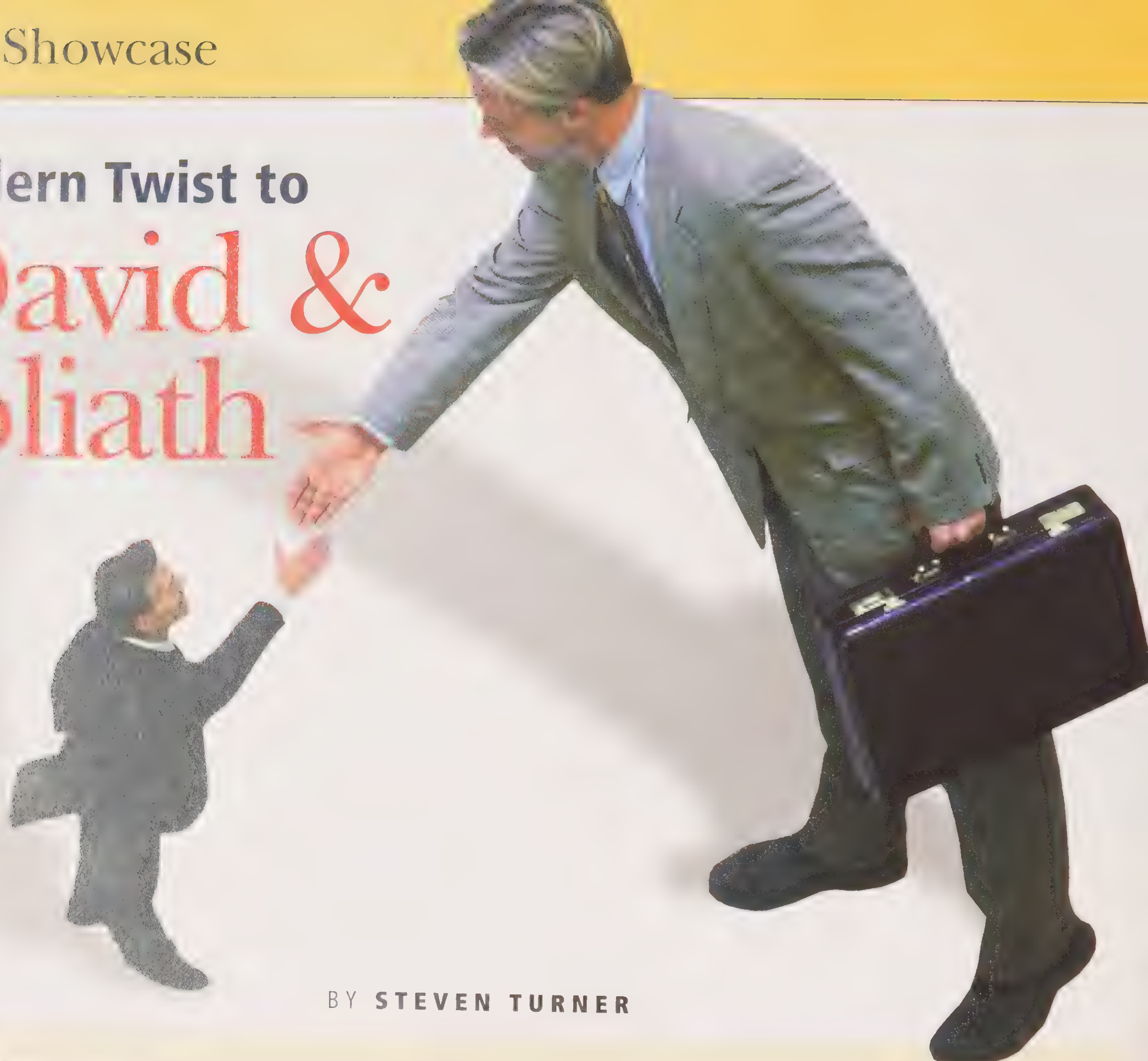
The next three years could see approximately 130 floating production systems (FPSs) of various types coming on stream. West Africa is predicted to get the lion's share of future investment in floaters, with investments of some $11 billion destined for the region. This is nearly twice that of other major regions, with the Gulf of Mexico at $6.1 billion, Brazil at $5.1 billion and Asia Pacific at $4.7 billion.

Key issues to watch

Space and weight restrictions on most offshore platforms, tilt and motion problems on floating platforms, and safety and environmental constraints create a strong incentive for process intensification.

Research into a new high intensity contacting concept has shown the potential for orders of magnitude reductions in equipment size and weight. ■

A Modern Twist to David & Goliath



BY **STEVEN TURNER**

It's an epic battle more than three millennia old – the metaphorical struggle between David and Goliath. Each time the story is told the outcome is always the same; when the dust settles, the giant has fallen and the little guy towers over him, destined for a successful future. Today, however, there is a new twist to this story. By working together, both the big guy and the little guy can stand tall.

At least this is the experience of P.E.I.–based Cogsdale Corporation, which teamed up with industry giant Microsoft Corporation to build specialized software for municipalities and utility companies worldwide. Cogsdale builds software on the same platform as Microsoft Business Solutions Great Plains, a platform that is used by more than 140,000 customers in 132 countries and more than 300 utilities, cities and county governments worldwide.

"We deliver powerful, fully integrated software with impressive functionality for municipalities and utility companies to streamline their financial and billing systems," says president Duncan Shaw. "And because it looks and feels like a Microsoft product, it's user-friendly for employees already familiar with this brand."

Cogsdale's partnership with Microsoft began as the result of a partnership between Cogsdale and the Great Plains Software Corporation. When Microsoft acquired Great Plains in December of 2000, Cogsdale became a vital partner to a new Microsoft product. As for the new pairing, Shaw explains that the relationship is one of cooperation and compromise, which has only increased customer service and satisfaction.

The partnership has shown itself to be lucrative for both companies. Last year Cogsdale helped Microsoft Canada facilitate a deal with the Central Service Association in Mississippi. This deal was Microsoft Business Solutions Canada's biggest of the year, worth an estimated $5 million. By acquiring Great Plains Software, Microsoft has not only added value to their software through Cogsdale; they have gained a business partnership with positive reciprocal value for each company.

In fact, Microsoft thinks a great deal of its partner. Cogsdale was awarded a Microsoft Gold Certification in 2003 as well as a Certified Development

Organization qualification from Microsoft Business Solutions, one of only six issued worldwide. It also made the Branham300 list as one of Canada's top information technology companies.

Currently, exports make up about 90 per cent of Cogsdale's total business volume. With so many foreign customers though, how does Cogsdale ensure customers are satisfied and future growth is assured?

Shaw says this challenge is easily met. "We believe in being there. By customizing our software and maintaining that personal touch, visiting our customers often and in person, we add value to Cogsdale's service."

To ensure contact is maintained, Cogsdale's sales team is spread out across Canada and the United States and markets have been established in Antigua, South Africa and the Cayman Islands. "When you've got anywhere from 60 to 100 companies offering a similar service, the personal touch is often what wins the contracts and keeps customers coming back."

Cogsdale relies on EDC's Accounts Receivable Insurance, which insures companies against non-payment for up to 90 per cent of the total value of the transaction. "We use the service because it lessens the risk of not getting paid and saves time trying to find out whether the foreign company is a good risk or not."

As for the challenges here at home, Cogsdale seems to have placed itself in an advantageous position. Aligned with industry giant Microsoft, Cogsdale has not only shown itself able to succeed on a Microsoft platform, but also to use their expertise to help Microsoft increase their own market share. They have joined Goliath and found success, giving the old epic a new twist. ■

COMPANY PROFILE

Business: Specialized software for utility companies and municipal governments

Location: Charlottetown

Established: 1999

Employees: Less than 100

Exports: 90 per cent

Export Markets: U.S., South Africa, Antigua, Cayman Islands

Contact: www.cogsdale.com

Utilities Sector and IT Investment

BY **TERRI-SUE BUCHANAN**

Industry outlook

Most utilities today understand the need to increase productivity and decrease costs, while maintaining a workforce that can share knowledge and work more efficiently. By upgrading or replacing their computer information systems, utilities hope to increase their competitiveness.

To that end, utilities want to reach customers via the Web to allow them to pay electronically, and provide detailed information on their bills.

In fact, the connected and real-time economy is providing new opportunities in a myriad of sectors to use IT to streamline external business processes and create new business solutions. The rise of electronic data transfer, e-commerce and wireless technology has prompted significant and evolutionary patterns in the way that companies conduct transactions, relationships and buying decisions.

Throughout the 1990s, American businesses overspent on internal "enterprise" systems. By 2000, the excess was 12 per cent of all purchases, or $62 billion, according to Forester Research. Spending has been flat since then, but according to an analysis by UtiliPoint International, those outlays have grown at five per cent over the last year. The consulting firm expects that to rise in the coming years as computer information systems become overwhelmed by the demand for new product offerings and more complex billing needs.

Industry Canada estimates that 52 per cent of software revenues are derived from exports. The Canadian software products industry has demonstrated success in a fiercely competitive global market through leading products in the fields of graphics, document management, Enterprise Resource Planning (ERP), cryptography and other specialized applications, and through a wide variety of vertical markets such as financial services and retail systems. The industry's success is driven by the technical strengths in the development of superior products, easy access to the U.S., and emerging marketing and sales skills.

Opportunities

Deregulation in the utilities industry has opened up many opportunities to provide services to the consumer, dramatically increasing the flow of business transactions between utilities and energy service providers (ESPs). Individual state public service commissions set the rules for the deregulated utility industry, with most mandating the use of EDI technology as the standard for exchanging business transactions between ESPs and utilities.

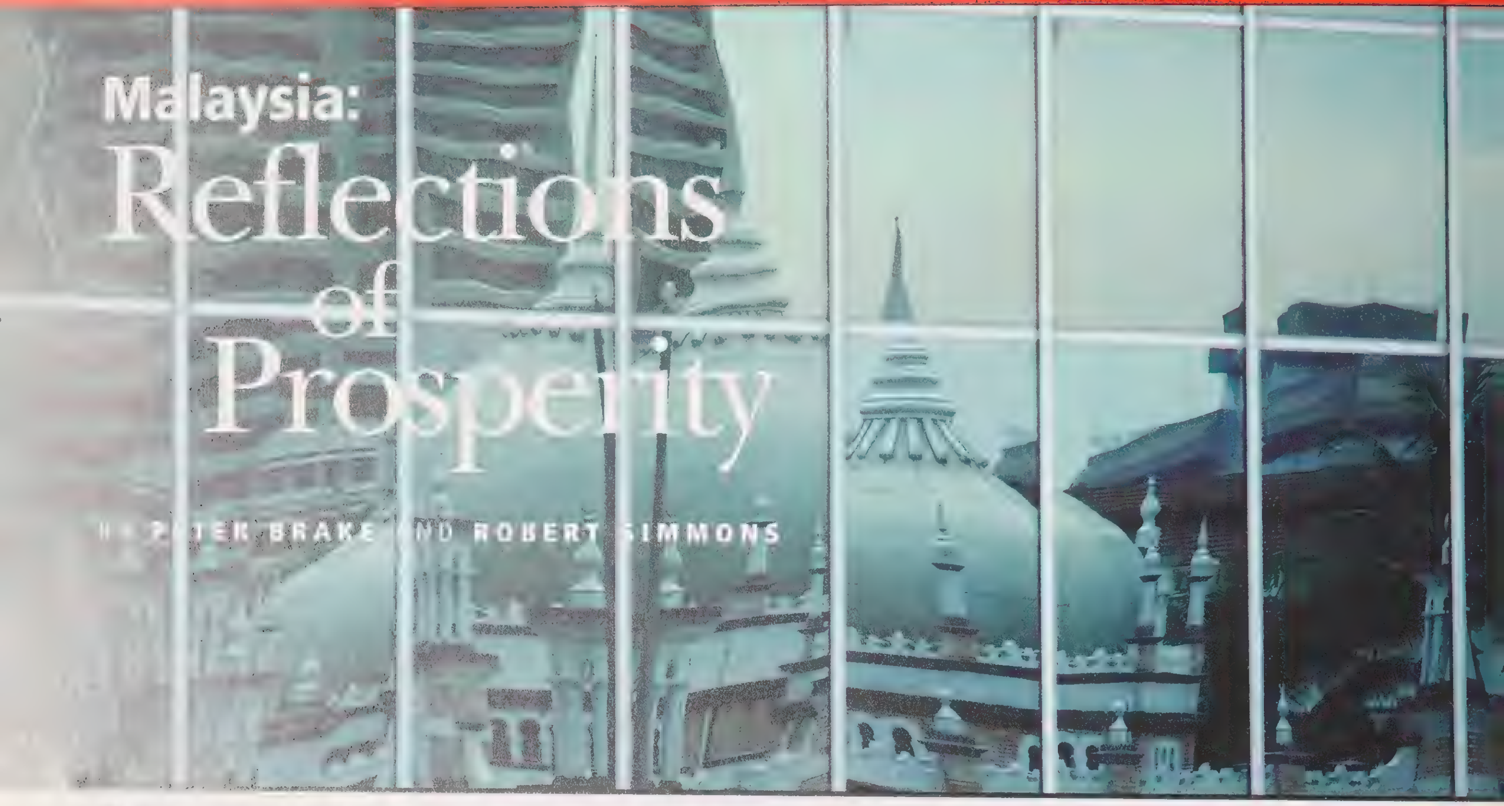
EDI is the sending and receiving of business transactions via computers in a standardized format. A large number of ESPs do not have EDI capability and therefore outsource transaction processing to EDI service providers.

In fact, most enterprises have a legacy of investments in IT including hardware platforms, operating systems, networks and a portfolio of business applications, that touch many people both inside and outside the enterprise. Because of an increased emphasis on customer service and retail access, companies in most sectors are acknowledging the necessity to move to cutting-edge technologies.

Key issues to watch

The global utility industry is in a period of dramatic structural change and growth resulting in record levels of investment, mergers and acquisitions, privatization, deregulation and diversification. Utilities which were once protected monopolies are being privatized and developed and, therefore, must compete for business and investment capital.

Overhauling an information technology system, however, can take a big chunk out of a utility's budget. It can cost millions to replace any system at a large investor-owned utility, which is why mostly large utilities with deep pockets can make those investments. But at a fraction of that capital investment, other smaller to mid-sized utilities can add functionality to their systems. ■



Malaysia: Reflections of Prosperity

BY PETER BRAKE AND ROBERT SIMMONS

Malaysia, one of Asia's original 'economic tigers,' has enjoyed a remarkably consistent record of growth over the last decade. This country of 22 million people, neighbouring on Thailand and Singapore, has transformed itself from a producer of raw materials into an export economy of electrical and electronic products. Today, Malaysia is rapidly laying the foundation for its leap into the front ranks of Asia's technologically advanced, knowledge-rich countries.

In terms of growth, Southeast Asia has been the darling of the Canadian export drive in recent years with Malaysia at the forefront of [illegible] success. Last year, exports to the region increased 16 per cent [illegible] year from 2001. Malaysia [illegible] surge in Canadian imports [illegible] million, a rise of more than [illegible] positioning the country as Canada's largest trading partner in the region. While the volume of [illegible] commodity exports has kept [illegible] growth has been in [illegible] including information and communications products, transportation equipment, electronic components and pharmaceuticals. As Malaysia continues to transform itself, Canada has an excellent chance of capitalizing on a strong foundation leading to the expansion of the amount and variety of Canadian exports of goods, services and technology.

Malaysia is a multi-ethnic nation composed mostly of Malays, Chinese and Indians. Secular principles dominate in commerce and politics but issues related to political Islam are increasing in importance. Political stability has marked the long tenure of Prime Minister Mahathir Mohamad who, despite vocal protectionist sentiments, has welcomed foreign investment and maintained a generally open, free trade environment. Mahathir's retirement this year should not greatly affect this stability. While foreign direct investment is welcome, Canadian investors should take note of rules regarding local ownership and of tax implications and currency control mechanisms that impose time delays on the repatriation of capital and profits.

Canadian export opportunities to Malaysia exist across a wide spectrum of sectors. Primary products such as minerals, agricultural and forestry products will continue to dominate in the near future since Malaysia remains a centre of manufacturing and production. Enhanced technologies and services will enjoy future growth commensurate with Malaysia's development of its knowledge-based sector. Areas of opportunity to look for include telecommunications, environmental waste management and remediation, as well as oil and gas exploration, and pipeline service and technologies.

Despite the current difficult global market for telecommunications, Malaysia is heavily committed to expanding its network capacity. Satisfying surging domestic demand and enhancing its future ability to leverage its knowledge sector are the driving force behind the county's endeavours. Prominent Canadian companies have established a solid presence in the market and smaller Canadian suppliers would be wise to capitalize on linkages with Canadian products and services.

Unfortunately, rapid industrialization has led to problems of pollution and poor

land use planning in Malaysia. Movement into a post-industrial cycle requires addressing the need for upgrading the nation's environment infrastructure and waste management solutions. To this end, the government has either privatized or is seriously considering privatizing services such as sewage, water supply and waste management, and the treatment of toxic, hazardous waste and air pollution. Opportunities exist for sewage and waste water treatment machinery, monitoring equipment and industrial purification systems. Additional demand is also present in the fields of waste minimization, hazardous waste recycling and bio-remediation. Joint ventures involving Canadian partners have been successful in gaining long term concessions for monitoring activities.

In the oil and gas sector in Malaysia, ongoing prospects exist in the areas of deep sea oil and gas exploration and extraction. Sought-after expertise includes multilateral and horizontal drilling, operational services, engineering consulting and information technologies such as real time data management.

The demand of the domestic consumer market in Malaysia is an area of long-term growth mirroring the country's development. The internal market of 22 million people offers new opportunities for innovative consumer products, particularly in the agri-food and beverage sector. High transportation costs to Southeast Asia, however, can make it difficult to compete on price alone. Therefore, branding is key, and products should be differentiated from well-known Australian and American competitors by marketing that details a product's unique capabilities.

Canadian companies seeking to sell into the Malaysian market need to think long term to succeed. Decision making is moving away from more formal government channels to privatized entities which prefer dealing with stable relationships marked by personal knowledge and familiarity. It is crucial to be aware of the different ethnicities and customs of the Malaysian people, particularly Islamic customs. Socializing is important and appropriate follow-up contact to initial meetings is essential. It is not the Malaysian custom to "get right down to business." Exchanging personal views on a variety of general interest subjects establishes a rapport and lays a foundation for later business discussions.

Malaysia is poised to make the next step into the rank of advanced nations. It has the resources and the desire to expand its access to new products, services and technologies. Canadian exporters can achieve success with the skilled application of knowledge and initiative. ■

Peter Brake, LLB (peterbrake@rogers.com) is an Ottawa-based freelance writer. Robert Simmons (rsimmons@edc.ca) is EDC's regional manager, International Markets, for Asia.

How our analysts see it

BY **DEREK BAAS** AND **TABINDA HAIDER**

Political overview

- In October 2003, Prime Minister Mahathir Mohamad will leave office after 21 years of service. He will likely be succeeded by Deputy Prime Minister Abdullah Ahmad Badawi. Some observers question Badawi's ability to be a charismatic and credible leader, which might be a factor in determining whether he can keep his party popular among Malaysian voters.
- In September 2002, with the introduction of tougher laws against illegal immigrant workers, a mass exodus of cheap foreign labour took place. Faced with the reality that a shortage of cheap labour would be detrimental to the economy, the current government is working toward relaxing laws against foreign workers in Malaysia.
- Malaysia is making great efforts to distance itself from other Southeast Asian nations with respect to security matters – particularly in the wake of the October 2002 bombings in Indonesia. Malaysia's Internal Security Act (ISA) is stricter than the terror-related laws of most neighbouring countries.
- Malaysia seems to have largely averted the spread of SARS, but tourism revenues still may be impacted as a result of the epidemic.

Economic situation

- Malaysia's GDP grew by 4.2 per cent in 2002 and is expected to grow by four to five per cent in 2003 and 2004.
- Malaysia's exports grew by 6.1 per cent in 2002 and the import market grew by 8.4 per cent. This is in line with stronger domestic demand and improving external conditions.
- The United States, Singapore and Japan remain Malaysia's major trading partners but it is experiencing increasing trade linkages with China and other Southeast Asian countries.
- After posting a deficit of 4.7 per cent of GDP in 2002, the Malaysian government has maintained a strategy of fiscal stimulus to shelter the economy from the global slowdown. The aim is to encourage private investment and consumer spending.

Key issues to watch

- Whether the government can transition the economy from one highly dependent on international trade to one that is led by domestic-driven growth.
- Whether the Malaysian currency (the ringgit) can continue to be pegged to the U.S. dollar at MYR3.8/$1.
- Whether the succession of Prime Ministers is successful and whether Badawi becomes as trusted by Malaysian voters as his predecessor.
- Whether Malaysia continues Mahathir's strategy to "Look East" in trade and investment opportunities. ■

Derek Baas (dbaas@edc.ca) is a senior political risk analyst with EDC's Political Risk Assessment Group and Tabinda Haider (thaider@edc.ca) is an economist with EDC's Economic Analysis and Forecasting Group.

Brazil: South America's Economic Summit

BY PETER BRAKE

Brazil is a land of exotic ecosystems, vibrant cities and undisputed sensuality. As the world's 12th largest economy, it dominates the South American continent in both size and population. Incredibly rich and diverse natural resources harnessed by advanced industrial and technological capability have enabled the country to offer Canadians wide-ranging export and investment opportunities.

Canada's exports to Brazil in the 1990s exceeded $1 billion per year. However, this level of trade declined in recent years due to Brazil's currency devaluation in 1999 and weakened world conditions. On an encouraging note, however, Brazil's new president, Luiz Inácio Lula da Silva, has committed himself to the further opening of economic and trade liberalization. His combination of mostly orthodox economic policies with populist outreach is designed to lessen the country's vulnerability to external economic shocks while addressing entrenched problems of poverty and equity among Brazil's embattled poor. As the rapid recovery of the world economy continues and global conditions stabilize, the potential exists for renewed expansion of trade with Canada.

Today, Brazil beckons with opportunities for Canadian exporters in sectors such as mining, oil and gas exploration, power generation and transmission, environmental services and information technology.

In the resource sectors, strict regulations require mining companies to protect and rehabilitate their operating environments. Specialized drilling technology with advanced sensitivity to the environment is in high demand. Canadian mining interests have been in this sector for some time. For smaller firms, pursuing supply to existing companies already active in Brazil may be the best strategy when looking to access the market.

Brazil is second only to Venezuela in South America in terms of oil and gas reserves. Oil and gas exploration is expected to receive investment of US$8 to 10 billion per year over the next five years. Demand exists for drilling and exploration components, oil platform management, airborne seismic surveys and geophysics. Canadian companies have an established presence in this sector, but more effort is required to enhance the knowledge of Canadian expertise. Partnering with an established player acting as a strategic supplier or capital investor is a proven market entry formula for this sector.

Brazil has the world's sixth largest electric power equipment market, with new demand rapidly outstripping current capacity. Removal of state monopolies and increased privatization has resulted in significant foreign and domestic investment. Much of this has gone toward constructing new facilities and upgrading older installations. Major investment is planned in thermoelectricity following the approval of several new plants. Tax incentives exist to encourage private development and expand both range and capacity. Alternative energy sources are also receiving government emphasis. Canadian exporters have successfully penetrated the market for gas turbines, but the requirement for additional electrical machinery and equipment, such as electric generator sets and insulated cable and wire, awaits fulfilment.

Severe air pollution in Brazil's cities and environmental degradation in the Amazon basin has created a need for environmental science services and machinery. Mining and oil and gas activities have

been the focus of most government regulatory efforts, but increased public environmental awareness has lead to rising standards in other private sector areas. Demand is strongest in areas where local officials strictly enforce regulations or where multinational enterprises implement best practises as a matter of corporate policy. Government agencies have expanding requirements for monitoring, analysis and enforcement support. The shrewd exporter will note that understanding the underlying air quality problems and proposing cost-effective, efficient solutions will receive greater acceptance than just being aware of Brazil's current equipment and service demands. As always, cost is a concern and international competition is fierce.

Within the field of information technology exists the need for next generation know-how, linking old infrastructure with new platforms. The perceived major weakness of overseas suppliers is a lack of post-sales technical support and maintenance offered in-country. Successful market strategies have stressed the importance of establishing a local presence with an office or by appointing a representative, agent or distributor.

Exporters should be aware that Portuguese is the official language of Brazil. Avoid using Spanish as a substitute. Initial correspondence should be in either Portuguese or English. Personal contacts play an important role in Brazil and can make the difference in doing business deals. In business conversations, pay respect to people's titles (eg. Professor, Doctor) and 'Senhor' (Mr.) or 'Senhora' (Mrs.) and don't be surprised that the first name rather than the last name is used (ie. Sr Carlos, Sra Julia). Note that Brazilians do not like to say 'no,' so getting a specific answer may be a question of perseverance.

The immensity of Brazil's resources, coupled with its vibrant, industrious industry provides a winning combination for Canadian export prospects. Aggressive, adventurous Canadians will discover bountiful opportunities within South America's economic summit. ■

Peter Brake, LLB (peterbrake@rogers.com) is an Ottawa-based freelance writer.

How our analysts see it

BY **ROD LEVER** AND **STUART BERGMAN**

Political overview

▸ Luiz Inacio 'Lula' da Silva of the Worker's Party (PT) won a second round run-off vote to become President in October 2002, capturing 61 per cent of the ballots, a 22 per cent lead over his closest competitor Jose Serra of the Social Democratic Party (PSDB).

▸ Congressional and municipal elections were also held in October and the PT capitalized on Lula's popularity to make the strongest gains in the elections. Although the PT does not have a majority in congress, the gains will help Lula secure coalitions to pass legislation.

▸ In early 2003, Lula began to implement responsible economic reforms, moving away from some of his previous radical beliefs.

▸ This departure has caused a rift in the PT between more conservative and radical members. There remains the possibility that the party could fracture and that the PT's congressional presence would diminish. This tension is being manifested in an internal-PT debate over structural reform, explained in more detail below.

Economic situation

▸ Brazil's prospects will be determined by the new administration's ability to remain loyal to its disciplined policy agenda and push on with its ambitious structural reform program in the face of a slower-than-expected global economic recovery. If, as is anticipated, fiscal discipline is maintained and structural reforms are approved, growth should pick up toward the end of the year. While the government has managed to come to an agreement with the influential state governors on the pension reform bill, the reforms are not expected to get through both chambers of congress until October – and even then some policy concessions will have to be made.

▸ In the first six months of the new government, 550,000 people lost their jobs. EDC's overall 2003 growth forecast was downgraded to 1.8 per cent due to disappointing first quarter and preliminary second quarter figures in terms of weaker-than-expected domestic demand. While household consumption contracted by 0.6 per cent in the first quarter, the main factor in the decline was weak business spending. After two consecutive quarters of better than two per cent growth, fixed capital accumulation posted a quarterly decrease of 4.6 per cent. As the worst of the inflation bubble comes to an end, however, a loosening of monetary policy over the next 18 months should help bolster domestic demand.

▸ Even as the *real* strengthens, Brazil's trade performance is on pace to surpass last year's depreciation-induced gains. The fiasco surrounding the presidential election saw the 12-month current account deficit drop from 4.6 per cent of GDP in December 2001 to 1.6 per cent of GDP in December 2002. So far this year, the trade surplus has reached US$10.4 billion, compared to only US$2.6 billion last year.

Key issues to watch

▸ Whether Lula's new economic position will cause a rift in the PT and stagnate their term in congress.

▸ Whether the economic reforms and fiscal prudence will bring Brazil the economic stability which has so far evaded the nation.

▸ Whether lower interest rates and further export growth can help pull Brazil out of the shadow of its crisis. ■

Rod Lever (rlever@edc.ca) is a political risk analyst with EDC's Political Risk Group and Stuart Bergman (sbergman@edc.ca) is an economist with EDC's Economic Analysis and Forecasting Group.

The Netherlands: 'Welkom' Canadian Business

PETER [illegible]

Situated in Western Europe between Belgium and Germany, the Netherlands has distinguished itself by outpacing Europe's overall growth over the last several years. It is a modern, industrial country with a prosperous and extremely open economy oriented toward foreign trade. The Netherlands, more often referred to as Holland, is noted for its stability, fiscal strength and its well-managed economy.

Canada enjoys great success in trade to the Netherlands, with exports in 2002 alone totalling [illegible] billion. Traditionally commodity-based, there has been a continuous evolution in the nature of Canada's exports of finished, [illegible] equipment and services. Examples include sectors such as aerospace, [illegible] telecommunications equipment and services, and electrical machinery. Ongoing diversification into environmental technologies, fish and frozen seafood, as well as medical devices is offering aggressive Canadian companies opportunities for success.

The Netherlands is highly integrated into the European Union (E.U.). While this lends itself to the presence of well developed competition for Canadian exports, it also means that the Netherlands can serve as a strategic entry point for access to the greater E.U. market. Distinguishing oneself through niche marketing or through joint venture partnering with Dutch firms will improve a Canadian company's advantage.

Protected behind its world famous network of dikes is Holland's extensive and highly-mechanized agricultural sector. Yet, much of this farmland territory is below sea level, rendering it vulnerable to contamination. It is not surprising, therefore, that the Netherlands is very sensitive to environmental issues. Canadian exporters trying to enter the Dutch environmental market will find their best opportunities in soil remediation, combating the leaching of ammonia, nitrates and phosphates in agricultural land. Be aware that the market's degree of sophistication means that only leading-edge technology will be able to compete. The best way for Canadians to establish a presence is to partner with a Dutch company well-versed in local and E.U. regulations and to be familiar with regional and national procurement agencies.

The fish and seafood industry is dominated by foreign imports. The majority of this trade is subject to re-export, as the Dutch are key players in supplying the demands of a growing E.U. marketplace. Health and safety issues are of increasing concern to Dutch consumers, as is product convenience. The nation's fish processing and exporting companies are always eager to establish dependable supply relationships in order to maintain and enhance their position in the European fish and seafood market.

Like many developed countries, the Netherlands is wrestling with an aging population and rapidly rising health care costs. Government and health insurance companies are eager to access new and cost-effective medical devices and treatments. Canadian suppliers of cardiovascular devices, orthopaedic implants, diagnostic imaging products and treatments of circulatory and respiratory disorders may wish to explore the market's potential. Re-export within the E.U. is always a significant add-on benefit to penetrating the Netherlands. Canadian companies should consider

forming alliances with Dutch suppliers already carrying proven product lines and who are interested in expanding their innovative top quality offerings.

Savvy Canadian exporters should take note of information technology supply to the education field in the Netherlands. The Dutch have lagged behind other E.U. nations in upgrading the integration of technology into the educational sector. Several recently announced new programs hope to aid in closing this gap. Canadian companies have already garnered Dutch respect for our expertise in this sector, thus creating openings to leverage this familiarity and introduce innovative educational and "learnware" products. Agreements between the Canadian and Netherlands governments should facilitate exchanges of information in this regard.

It's important to note that the Dutch are a generally risk-averse culture. While innovation in proven technology is welcome, the introduction of the novel or unfamiliar may be more difficult. A consistent, long-term approach is necessary to achieve acceptance. Fairs, exhibitions and trade shows are standard venues for promoting new product lines and accessing interested people and companies.

For travellers to the Netherlands, the business culture is typically European, slightly formal but with a preference for open dialogue. 'Cold' meetings, though, are often met with resistance or looked on as suspect. Expect to introduce your company and table any proposition at least three to four weeks before the planned meeting date. English is widely spoken and practised by almost all company executives. However, it is always worth checking on the level of your audience's proficiency before attending a meeting.

Canadians have proven their ability to compete in the sophisticated Dutch marketplace. Alongside this success comes a springboard to opportunity in the larger E.U. For those Canadian firms wanting to look overseas for new buyers, the Netherlands is prepared to greet them with a robust "Welkom." ■

Peter Brake, LLB (peterbrake@rogers.com) is an Ottawa-based freelance writer.

How our analysts see it

BY **FERGAL O'REILLY** AND **STUART BERGMAN**

Political overview

▸ Elections in May 2002 caused a major upset in Dutch politics with the collapse of the long-governing Labour-led coalition. While the established opposition Christian Democrats emerged as victors in the election, the real upset was the emergence of the far-right Lijst Pim Fortuyn (LPF) party, who entered into coalition with the Christian Democrats. The latter was founded largely around the personality of its charismatic leader, Pim Fortuyn (who was assassinated just before the election) and espoused a hard-line anti-immigration policy.

▸ The coalition collapsed amid internal squabbling after only 86 days and subsequent elections saw the elimination of the LPF as a political force.

▸ Following an arduous process of coalition negotiations, the Christian Democrats have re-emerged as the leaders of the government in coalition with the Centrist Liberal and D66 parties. The new coalition should set Dutch politics back on an even keel after the turmoil of the past year.

Economic situation

▸ The Netherlands is a highly industrialized nation with a GDP comparable to Canada's. Although the country is not rich in natural resources, its geographical location makes it a hub of trade to the rest of Europe. More than 65 per cent of Dutch trade occurs with other European Union members and more than a third of that trade is with Germany alone. The introduction of the euro last year went smoothly and had one of the fastest adoption rates in Europe. Public acceptance was widespread and immediate.

▸ After falling to just 0.2 per cent in 2002, GDP growth in the Netherlands witnessed its second consecutive quarterly decline in the first quarter of this year. Falling 0.3 per cent over the last quarter of last year, and 0.1 per cent on a yearly basis, the Dutch economy continues to struggle at levels not seen since the early 1980s. While government spending continues to provide the bulk of the stimulus, weak foreign and domestic demand are stifling economic growth. The general government accounts are expected to run a deficit of approximately two per cent of GDP in both 2003 and 2004.

▸ Consistent decline in private fixed capital investment, which contracted by six per cent in the first quarter, is responsible for most of the downturn. Poor labour market conditions are weighing down marginal improvements in household consumption. The Dutch unemployment rate rose to nearly three per cent in the first quarter, from two per cent in the same quarter last year. The lagging global recovery, primarily the continuing softness in the U.S. and German economies, remains the largest obstacle to a turnaround in the Dutch economy. While first quarter exports grew 0.2 per cent, the improvement was in part due to an increase in re-exports.

Key issues to watch

▸ Whether the European Central Bank further loosens its monetary stance, enabling business spending to pick up its share of the slack and take some of the strain off of government expenditures.

▸ Whether more activity in the private sector will also help increase government revenues by expanding the tax base.

▸ Whether government spending will be enough to stimulate positive growth in 2003.

▸ Whether a unified global recovery will materialize and help offset the country's sharp fall in competitiveness against extra-euro area countries. ■

Fergal O'Reilly (fo'reilly@edc.ca) is a senior political risk analyst with EDC's Political Risk Group and Stuart Bergman (sbergman@edc.ca) is an economist with EDC's Economic Analysis and Forecasting Group.

PUTTING TOGETHER THE EXPORT PUZZLE (PART FOUR)

TO MARKET, TO MARKET

All your hard work has paid off. The prospect you've been working on has come through and he or she has given you your first export order. Now you're at the final stage of your project – sorting out the contract, figuring out how to pack the goods, dealing with paperwork and shipping. First, the contract …

BY **DENNIS** AND **SANDI JONES**

Get it in writing

Unless you have a stable of in-house international trade lawyers, it may be a good idea to search out external help with the contract. A place that can help you is Team Canada Inc (TCI), whose information officers will direct you to the best contacts and resources for this phase of your export project. You can reach them at **1-888-811-1119**. Trade Commissioners at Industry Canada's International Trade Centres (ITC) across Canada can work with you to provide valuable exporting advice at this stage. You can locate your nearest ITC by logging onto

Address: www.itc-cci.gc.ca

Another source is the Canadian Commercial Corporation, which offers contract advisory services including bid preparation, negotiation and contract structuring. Their post-contract services include contract monitoring plus a foreign exchange service. For more information, go to

Address: www.ccc.ca/eng/ser_cdn_exp.cfm

You should also have a copy of *Incoterms 2000*. Published by the International Chamber of Commerce, this reference book describes and interprets the 13 basic terms used in international sales contracts. Knowing them can save you time, money and possibly legal entanglements. Go to

Address: www.iccbooks.com

pick your country and then click the Incoterms link.

Rules, rules, rules

International trade is governed by a myriad of laws, regulations, conventions and agreements. While you can't possibly be familiar with all of them, you should have some idea of what governs your particular market. TCI's ExportSource can help you here; go to

Address: exportsource.ca

to find links to international trade law resources and data about standards, permits and regulations.

For detailed information about Canada's export customs regulations, the Canada Customs and Revenue agency (CCRA) provides *A Handy Customs Guide for Exporters*. It covers exporting to both the U.S. and other destinations. To get a copy, go to

Address: www.ccra-adrc.gc.ca

Once inside the site, go to the search page and enter RC4116 in the Forms and Publications search box. You can download the guide or read it online.

You may also find the Canadian Automated Export Declaration (CAED) program useful. Registering allows you to file a B13A Export Declaration electronically instead of on paper. The page at

Address: www.statcan.ca/english/exports/overview.htm

will give you details.

One problem with regulations is that they change, and this can cause unpleasant surprises for unwary exporters. To avoid being taken off guard, consider a free subscription to the Export Alert

NOTE: Where there is no 'www', type the URL exactly as shown

This is the last in a four-part series. Look for parts one to three on EDC's website at www.edc.ca/exportwise.

Services from the Standards Council of Canada. You'll get automatic email warnings when foreign regulations about your products are going to change. It's at

Address: www.scc.ca/online/export_e.html

Finally, the World Customs Organization at

Address: www.wcoomd.org

has a link to customs Web sites all over the world. However, not all the sites have English versions.

Getting practical

There's no substitute for hands-on experience, and there are several orientation programs that will provide you with it. One is the New Exporters to Border States (NEBS) program, which has several components, including familiarization with U.S. border procedures. Its counterpart EXTUS (Exporters to the U.S.) is for companies already exporting to the United States. NEXOS, a third program, is for exporters to Europe; it's held in the target countries and provides information about agents and representatives, customs, shipping, labelling, distribution and currency regulations. To find out more about these programs, go to the Canada Business Service Centres' web site at

Address: www.cbsc.org

Once inside the site, use the Quick Search box to look for NEBS, EXTUS or NEXOS.

Details, details: Packaging, marking and insurance

Knowing about and abiding by packing, labelling and marking regulations is essential. Another absolute must is insurance, because your contract probably specifies that you're responsible for the goods until the foreign customer takes delivery.

At ExportSource, the Packaging and Transportation link will take you to a page of solutions for these issues. Two particularly useful publications here are *Safe Stowage: A Guide for Exporters* and *Export Packaging: A Guide for Exporters*, which you can access through the links of the same names.

Is payment secured?

We've mentioned this before, but it bears repeating – if you haven't already taken protective measures against non-payment, you should do so now. For a single transaction, Export Development Canada (EDC) offers Specific Transaction Insurance that covers up to 90 per cent of your losses from buyer insolvency or default, and even protects you from political upheavals. For details, go to

Address: edc.ca/prodserv/insurance/other_risks_e.htm

For broader-based coverage, investigate EDC's Accounts Receivable Insurance at

Address: edc.ca/insurance

Finally, if your customer wants a performance bond, refer to

Address: edc.ca/bonding

for EDC help on bonding arrangements.

Off and running

You've done it. The contract's signed, the container's loaded and labelled, your documentation is perfect, you've met your customer and you know you'll get paid. You've got the world to work in, with all its rewards and challenges. In short, you've become an exporter!

Baird & Associates: Keeping Mother Nature at Bay

[illegible] IAN M. CLARKE

However timeless the sight and sound of waves pounding against a beach, what we may be witnessing is plain old sand erosion. It seems nothing lasts forever – or at the very least, nothing stays the same forever.

F[illegible], today's technology is [illegible] Mother Nature to fight … [illegible] Nature.

[illegible] helping hand comes courtesy of [illegible] coastal engineers who use [illegible] skills of marine geol[illegible] oceanography and [illegible] to battle the effects of [illegible] and to open up new nav[illegible].

[illegible] & Associates, an Ottawa-based [illegible] organization that [illegible] of this tidal wave of [illegible]. With offices in Toronto, [illegible], and Santiago, [illegible] grown to more than [illegible] around the world [illegible] in 1981.

"[illegible] our business comes [illegible] Canada," says president [illegible] we're involved with [illegible] Caribbean and are [illegible] in Ghana. We [illegible] with projects in [illegible], Malaysia, Madagascar, [illegible] Peru."

The growth of an industry

The coastal engineering profession evolved in response to a diversity of challenges. During the 1950s and 1960s, coastal engineers and coastal oceanographers focused on different issues. Coastal engineering related mostly to the stability of tidal inlets, land reclamation, the closure of estuaries and bays for storm protection, and the construction of harbours. Solving these problems meant understanding tides and tidal currents.

In contrast, coastal oceanographers concentrated on tidal properties, including salinity and the gravitational circulation of water – a process induced by differences in water density and elevation. For example, freshwater flows downhill toward the sea so elevation drives river flow.

In the 1970s, coastal engineers started to get involved in water quality issues – which are concerned with currents and circulation. At this point engineers began to partner with oceanographers.

"Our team includes meteorologists, oceanographers, planners, geomorphologists, geographic information systems specialists and civil engineers," says Baird. "The civil engineers have many different areas of expertise. One of our managers has a Ph.D. in beaches – our resident 'beach doctor.'"

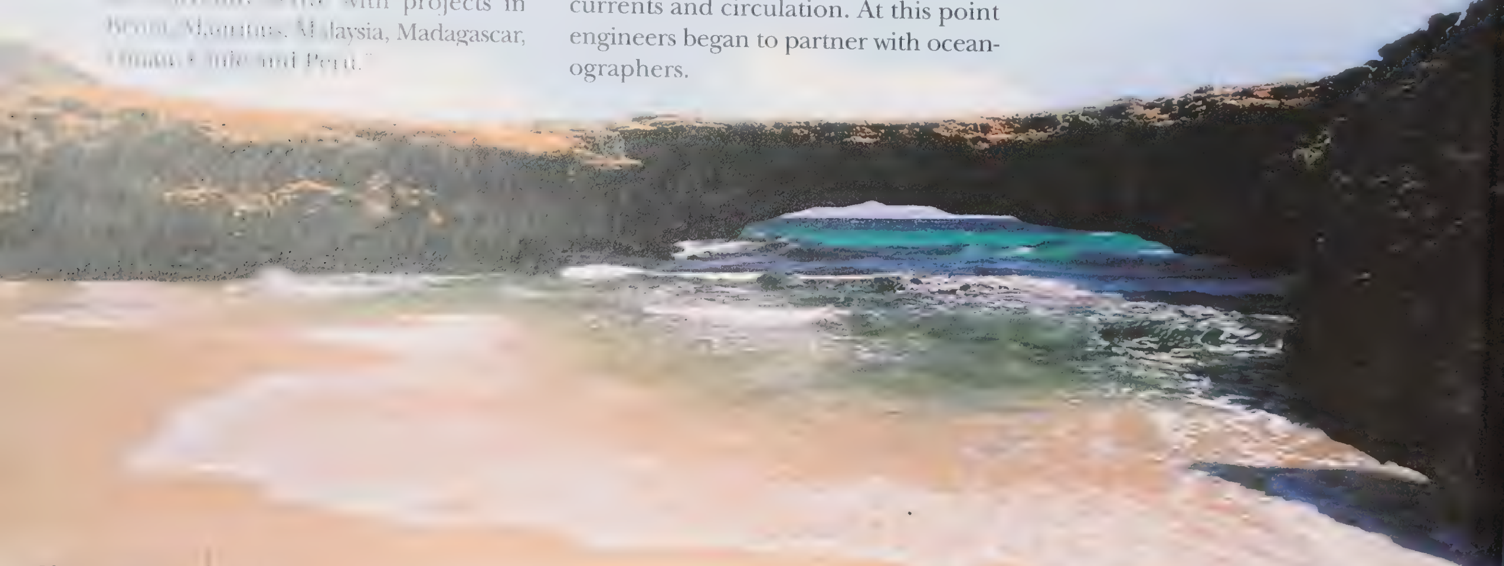
Indeed, coastal engineering can be approached from many disciplines:

Science: Oceanography, geology, geography, biology and ecology can help to interpret the processes that occur in the coastal zone – and how humans affect the zone.

Environment: The impact on coastal ecosystems from pollution and development.

Engineering: The design of safe, reliable civil engineering works.

Management: Solutions require regulatory and management directives.



International projects

These disciplines can be applied to many international projects. Baird's Barbados project involves restoring and improving a number of the much-touted beaches, and in Malaysia the company is dredging an entrance to a port at the mouth of a river.

"The first thing to keep in mind is that a coastline is very dynamic," Baird says. "It's always changing and erosion is normal. But generally, sand beaches erode through poor management. Sand often reaches the shore through rivers and if a dam is put across a river, for example, that could finish off the beach."

The company believes in the critical importance of research: great data leads to great results. It has developed wave analysis procedures to deliver project data for locations around the globe. Baird's experience with wave hindcasting (gathering site-specific measurements) has been part of its services for more than 20 years.

In fact, Baird & Associates has gathered its high-tech expertise in a division dedicated to developing animation software. The division offers software that enables users to view and analyze complex scientific data in 2-D, 3-D and 4-D visualization. By visually representing such data, a user can recognize and edit errors that may have been previously overlooked.

An example of the software at work is the Air Quality Mapping System (AQMS), an application for integrating satellite imagery with weather station data. The system was developed for the State Government of Sarawak in Malaysia, to provide tools to geographically visualize, explore and query data.

In addition to lining up the right people and the right technology, Baird & Associates has found conducting business on the international stage requires careful financial planning and management. On a number of occasions, the firm has used EDC services to meet specific bidding and contract requirements. "A year ago we were required to post a bond when we entered into a contract to design a project in West Africa," says Baird. "We turned to EDC as the bonding experts."

With more populations migrating toward coastal regions, rising sea levels, and a greater reliance on international trade moving through the world's ports, coastal engineering appears poised for new opportunities. Given its track record, Baird & Associates will add even more solutions to its 'toolbox' of accomplishments.

The Baird 'Toolbox'

After hundreds of projects, Baird & Associates presents clients with a 'toolbox' of field-tested solutions, approaching problems with unique techniques:

- Numerical Modelling: a vital element of shoreline projects, allowing a designer to extract the most useful information from the available data, through a variety of techniques.
- Physical Models: Allows the simulation of complex hydrodynamic and coastal processes.
- Field Services: For assessing project feasibility, monitoring performance, supporting engineering analyses and defining project geometry.
- Geographic Information Systems: Used for the capture, management, manipulation, analysis, modelling and display of geographically referenced data.

Navigating Water World

Drop by drop, our planet is getting into trouble.

Heading out of 2003, which The United Nations General Assembly declared to be the 'International Year of Freshwater,' experts have predicted that over the next 20 years, the average supply of water per person will fall by a third, and it's already in short supply. Also, by the middle of this century, at least two billion people in 48 countries will be seriously short of water.

Today, the world's six billion inhabitants are already appropriating 54 per cent of all the accessible freshwater. By 2025, this share will be 70 per cent. This estimate reflects the impact of population growth alone. If per capita consumption of water resources continues to rise at its current rate, humans could be using more than 90 per cent of all available freshwater within 25 years, leaving just 10 per cent for all other living beings.

As for Canada, we're in a position to impact change, holding an estimated nine per cent of the world's renewable water supply. As well, Canadian firms have won international recognition for their expertise in developing water and waste water treatment technologies, manufacturing environmental equipment, as well as engineering and consulting.

Canada's environmental export revenues reached $1.3 billion in 2000, an increase of 13 per cent over 1998. Of this amount, $879.1 million was in the form of environmental goods, and $459.3 million derived from environmental services.

Approximately 68 per cent of revenues from the export of environmental goods originated from water, air and waste categories.

Significant tariff and non-tariff barriers restrict environmental trade, particularly in key emerging markets in Asia and Latin America. Relatively high tariffs on environmental products (averaging 15 to 20 per cent) are present in nearly every major emerging market. In some markets such as China, the Philippines, Malaysia and Brazil, tariffs on environmental products are as high as 40 per cent. Numerous non-tariff barriers also affect worldwide trade in environmental technologies, but they are particularly onerous concerning the services trade.

On a global level, there is a growing, albeit protracted, effort to liberalize trade in environmental goods and services via multilateral and bilateral agreements.

Lockerbie Stanley: Engineering Clear Solutions

BY IAN M. CLARKE

China has about the same amount of water as Canada, with a population 40 times greater. In much of the country, the water is heavily polluted; flooding regularly surges out of control, wreaking havoc with crops and homes.

Half of China's population (nearly 700 million people) consumes drinking water contaminated with waste. Nearly 80 per cent of China's water is used for agriculture, but almost half of this total either evaporates or leaks.

In May 2001, a World Bank study recommended a 25-year action plan, with a cost of US$163 billion to solve China's water shortage problem.

The twin problems of water scarcity and pollution not only threaten human health, but jeopardize China's economic plans. Water shortages in cities cause a loss of an estimated US$11.2 billion in industrial output, while the impact of water pollution on human health has been valued at approximately US$3.9 billion by Chinese sources.

The China contracts

Large problems can sometimes be solved with small steps. Lockerbie Stanley, an Edmonton-based engineering, procurement and construction company, is helping to clean China's water.

Incorporated in 1995, Lockerbie Stanley has deep roots in the construction industry: major shareholders are Lockerbie & Hole Inc. (founded in 1898) and Stantec Consulting International Ltd. (founded in 1954).

"We've been associated with China for many years," says Gary Cutmore, the firm's business development manager. "Presently, China constitutes 100 per cent of our international business." Robert Pitour, vice-president, international business, adds, "Currently, the Chinese are on a big drive to build more water treatment facilities. Just a few years ago, only six per cent of the waste water was treated. They are hoping to achieve 25 per cent by 2005 – and for that they plan to spend more than one billion dollars."

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Lockerbie Stanley has a core group of six employees but, as Cutmore points outs, "we're structured in such a way that we can call upon professionals from a group of 8,000 personnel working at the founding companies. We have a number of people who speak Chinese dialects, so whatever the job calls for, we can answer with resources."

Though Lockerbie Stanley has completed large domestic projects, such as a water treatment plant in Cochrane, Alberta, two-thirds of its work is international. "Since the early 1990s, we have executed more than $80 million in contracts with China," says Cutmore. "The majority of that work concerns water and waste water management."

Since December 1992, the company has completed nine projects in China: four water treatment plants, three waste water treatment plants, one gas distribution system and one coal-liquefied petroleum gas project.

> *"Just a few years ago only six per cent of waste water was treated. They (the Chinese) are hoping to achieve 25 per cent by 2005 – and for that they plan to spend more than one billion dollars."*
>
> — *Robert Pitour*
> Vice-President, International Business

The bidding

How does a Canadian exporter get started in China?

Commercial projects may derive from various sources – government, private or state-owned firms – each of which hold particular requirements, procedures and financing demands. Lockerbie Stanley's activities follow the typical steps for concessionally financed projects.

A concessional financing program for qualifying transactions in China is administered by EDC on behalf of the Government of Canada. The intent of the program is to eliminate financing as a competitive issue and ensure that exporters compete on the basis of quality, service and price. The funds provided through this facility are in compliance with OECD Consensus regulations and are mixed with EDC's regular commercial lines of credit to supply "credit mix" financing to qualifying projects.

"For us, the process begins when a Chinese municipality applies for a grant from their provincial government to build a treatment plant, or whatever," Pitour explains. "Once the funding is secured and their engineers have worked out the specifications, they decide which countries will bid on the contract. Our agents learn of a project and they contact us. We travel to China, meet with officials, and present our company. Then they issue the official deed with specifications – and we bid."

Once the project has been secured, the work begins. "It can be a two-part process," explains Stantec Consulting vice-president and chief operating officer, Malcolm Gibbons. "One is the actual infrastructure of the plant – which we have to design. For instance, we specify the equipment size and how the treatment process is going to be done. Next, there's the design of the control system. We can develop the control system in-house. We sit down with the Stantec engineers and often come up with new approaches."

Cutmore cites an example of the firm improving on an established procedure. "Designers in China had identified a particular treatment process, and our people went over and explained to them why the Stantec proprietary process would be economically more beneficial in the lifecycle of operating costs for the plant. And they did change it following our suggestions."

Once a project is up and running, the next stage involves maintenance. "We have a number of training programs," says Cutmore. "With every contract, the Chinese send technical delegations to Canada – and they are trained by the actual manufacturers of the equipment. The important thing is that training is a significant part of our whole package."

The competition

The international marketplace is heated for firms involved in the processing of fresh and waste water. Pitour says that in Canada, there are only a few companies interested in the China projects, "and they tend to be branches of foreign-owned firms, whereas Lockerbie Stanley is 100 per cent Canadian. There can be many companies from many countries bidding on a contract. France, Germany and Scandinavian countries, for instance, are very active."

When asked if Lockerbie Stanley faces what they feel is unfair competition from foreign companies, Gibbons points out that, "In a country, such as Holland, their overseas development consulting work doesn't get taxed." He notes, "One of the reasons Lockerbie Stanley has been successful is due to the Government of Canada's concessional financing."

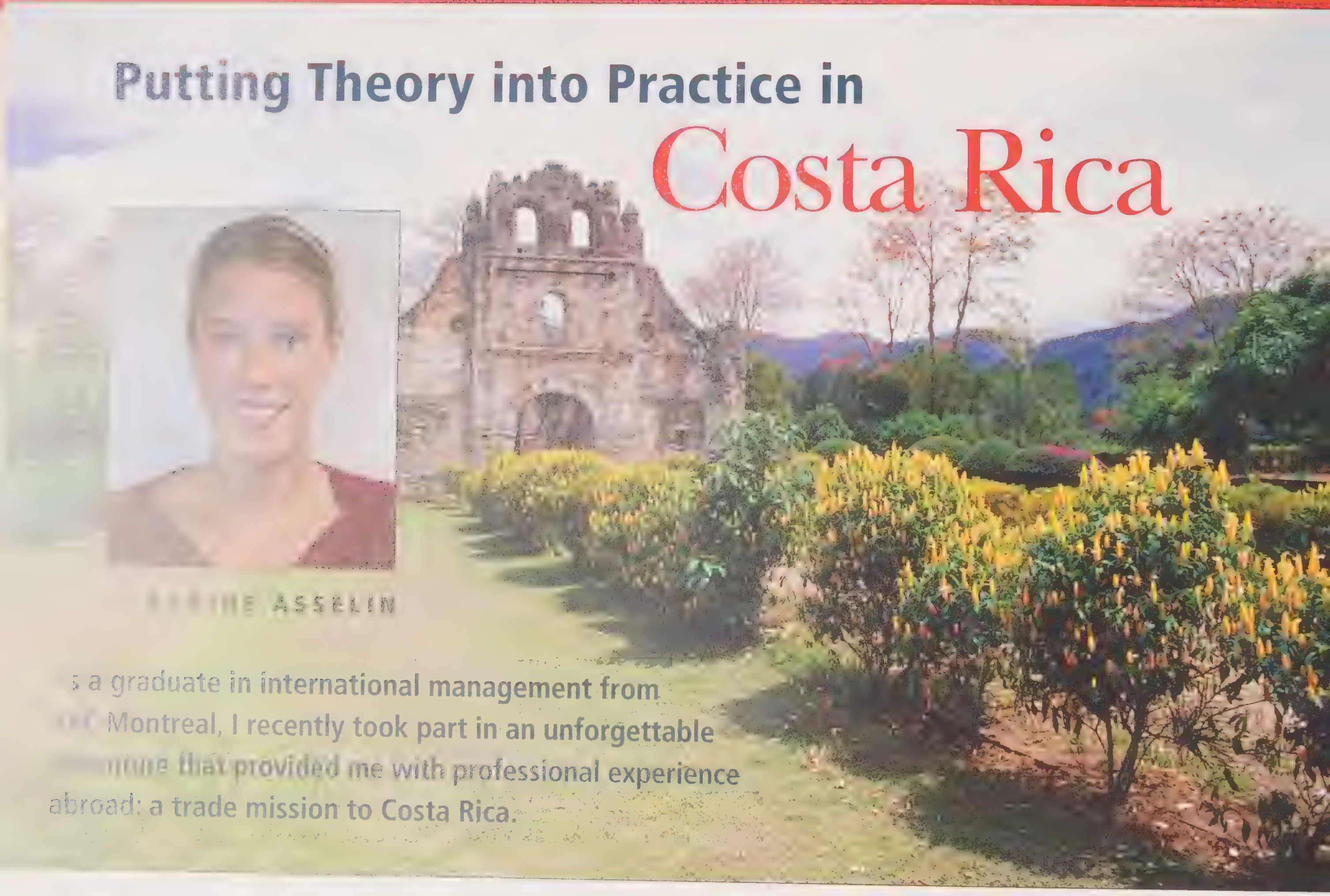
The future

Lockerbie Stanley is searching beyond China for more international opportunities. "Right now we're looking at the South American and Caribbean markets," says Cutmore. "For instance, Stantec Consulting has an office in the Caribbean. We've tried to get involved in Mexico." Cutmore believes that the firm succeeds when it has a competitive edge going into a bid. "We don't necessarily bid on internationally tendered projects. And that can mean waiting for the right opportunity." ■

COMPANY PROFILE

Business: EPC (engineering, procurement, construction) company
Location: Edmonton
Established: 1995
Employees: Six
Exports: 75 per cent
Export Markets: China
Contact: www.lockerbiehole.com

Putting Theory into Practice in Costa Rica



KARINE ASSELIN

As a graduate in international management from HEC Montreal, I recently took part in an unforgettable adventure that provided me with professional experience abroad: a trade mission to Costa Rica.

Sponsored by EDC, I flew to San José, Costa Rica, last May to gather information that would be useful for Canadian companies seeking [illegible] this promising market.

Costa Rica has enjoyed great economic stability. Its main activities are [illegible] to the new technology, tourism and [illegible] industries, primarily coffee and [illegible] plantations. The country is [illegible] a new era of economic [illegible] by increasingly opening its [illegible] the world.

Canada has taken advantage of this [illegible] to forge solid trade relations, [illegible] by signing a Canada-Costa Rica free trade agreement, which took effect last November. Virtually all residents of Costa Rica are well aware of the pact. Two different strategies have been used for this agreement: the government of Costa Rica has followed the trend toward market liberalization to support the continued growth of the country, while the government of Canada has focused on many business opportunities for Canadian companies.

Costa Rica is also a strong supporter and great promoter of duty-free zones. This concept includes a series of government incentives and benefits to businesses interested in making new investments in the country or setting up a local operation. This forms the cornerstone of the strategy developed by the government of Costa Rica to promote exports and investments.

I was surprised to find that to date, no Canadian company has taken advantage of this arrangement, leaving virtually the entire field to the Americans. However, these duty-free zones will gradually disappear under WTO provisions designating 2007 as the year when all countries with such zones must provide the same benefits throughout their territory, not just in these industrial parks. They, of course, will continue to be preferred locations for businesses because of the high calibre of services and infrastructure they provide.

Costa Rica is a gateway and an ideal hub for smaller exporters looking to develop business in Latin America. For a first venture in that region, this country represents an interesting partner, especially since trade practises are similar to those in Canada. Tourism is also very attractive ... Costa Rica is definitely worth a visit!

Many experts interviewed in Costa Rica explained that markets in Canada and Costa Rica are complementary. There is no shortage of business opportunities in Costa Rica, especially given the expertise of Canadian companies in many sectors. Agri-food, forestry, the automotive industry and public transit, environmental protection and restaurant services show the greatest promise. ■

Karine Asselin (karine.asselin@hec.ca) is a graduate in international management from HEC Montreal.

Brazilian Secretary of International Affairs at the Ministry of Finance predicts

More Stability and Trade Openness

Photo: Marcel La Haye ©2003

BY **TOBY HERSCOVITCH** AND **CLAUDIO ESCOBAR**

In a recent interview with EDC, Brazil's Secretary of International Affairs at the Ministry of Finance, Otaviano Canuto, spoke about the economic challenges, trade and investment opportunities in Brazil and his fondness for Montreal, where he received a Masters in Economics at Concordia University in the early 1980s. Dr. Canuto joined the Brazilian government in 2002 after making his mark as an economics professor and author.

EDC: *Do you think that Brazil will embrace the Free Trade of the Americas Agreement by the 2005 deadline?*

OC: In principle, I think that Canada and Brazil have similar views about the FTAA. We both look forward to more economic openness by all the trading partners, particularly a reduction in some of the protectionist measures that the U.S. and Europe apply to agriculture. There are also issues around the rules of doing business which are necessary for economic integration. For instance, only 12 out of the 37 countries in the region have fair competition laws and a corresponding regulatory framework. Ultimately, we believe that the FTAA will become a reality – the agreement will be deeper or more limited, depending on how these important concerns are resolved.

EDC: *What are some of the key economic challenges that Brazil is facing and what is your government doing to resolve them?*

OC: One key challenge is in the energy sector. This evolved from a flaw in our energy program in the mid-90s, when it was assumed that the real exchange rate would remain relatively stable. Since then, there have been distortions in energy pricing, with older contracts, which were indexed to the U.S. dollar, getting a much higher price than those on today's spot market. This should correct itself as the old contracts come due, but in the meanwhile, it has led to some rigidity and price distortions in the sector. In general terms, the greatest challenge is to raise our investments in infrastructure.

In the finance sector, we are aiming at reducing the weight of public debt as a proportion of GDP and as an asset in financial portfolios, pushing Brazilian savings toward private assets. We are also moving towards a lengthened time profile in our public debt as well as toward a lower ratio of indexed bonds. At the external front, we have obtained a decrease in our foreign financial vulnerability. In the early 90s, for example, our current account debt was about five per cent of GDP, which is very high. Our goal is to keep it within the range of one to 1.5 per cent, by keeping our floating exchange rate regime so that it can provide a buffer against economic shocks. We are also modernizing our bankruptcy law in order to increase creditor protection. This will help improve Brazil's investment climate.

EDC: *What kind of trade and investment opportunities do you see for Canadians in Brazil?*

OC: Brazil is not so much constrained by demand for our products, but by our ability to supply them, owing to the high cost of fundraising for investments. This means Canadians can use their experience and financial capacity to help develop our natural resource based manufacturing sector, from iron ore to pulp and paper ... soybeans to steel. This is an opportune time, because we have just about exhausted our excess capacity and are ready to start the investment cycle again. Also, we need investors to help build the infrastructure – harbours, roads, rail – associated with moving these products and connecting regions. Even in the aerospace industry, where we often hear more about the friction between our two countries than the opportunities, Canadian companies are doing well providing spare components and training. ■

Located in São Paulo, Brazil, J. Claudio Escobar (escobar@edc.ca) is EDC's regional director for Brazil and Southern Cone. The interview was conducted by Toby Herscovitch (therscovitch@edc.ca) of EDC's Public Affairs

I would like to know why Canada has failed to diversify its trade. The more it has tried to move away from trading with the U.S., the more it is trading with the U.S. and less with other parts of the world. Perhaps it is a good thing but it seems risky to put all eggs in one basket. What is or has been done to diversify trade and what has been the success rate?

Bhupinder S. Liddar
Editor, Diplomat & International Canada
Ottawa, Ontario

Almost all international trade takes place because it allows us to focus on the things we do best while obtaining other goods and services from somewhere else – which makes everyone better off. Who we trade with is influenced by four core economic factors. The first is market access, which includes the presence or absence of tariff and non-tariff barriers and the ability to resolve trade disputes. The Free Trade Agreement with the United States, subsequently expanded into NAFTA, has given Canadian companies superior access to the U.S. and Mexican markets, and trade has grown more rapidly as a result. If negotiations on a Free Trade Area of the Americas are successful, that could create the potential for accelerated trade growth throughout the Western Hemisphere. The technical design of trade agreements also matters. Economic research suggests that some regional trade agreements – like that of the European Union – have had the unintended effect of diverting trade away from countries that are outside the regional agreement.

The second core factor is purchasing power. The U.S. has the richest and most diverse economy in the world, so it is no surprise that the U.S. is the most important bilateral trading partner for many nations, including Canada.

The third factor is potential economic growth. Faster growth, compounded, quickly translates into rising purchasing power. Emerging markets – China, India, Mexico, Brazil, Central and Eastern Europe – have the highest potential growth rates as they strive to make their domestic economies more efficient. As one example, China has the potential to grow by seven to eight per cent annually for years to come. In contrast, the U.S. has a potential sustainable annual growth rate of three to 3.5 per cent. Potential growth rates for Western Europe (about two per cent) and Japan (less than two per cent) are lower still, reflecting internal structural rigidities and rapidly aging populations, with little immigration to replace retiring workers. Potential growth, therefore, favours emerging markets, but the U.S. is not ruled out.

The fourth and final factor is the risk associated with trade. There are commercial risks, such as a foreign buyer that refuses to pay. There are country economic risks, such as scarcity of foreign exchange. There are political risks, such as insurrection or arbitrary decision-making by governments or courts. Emerging markets are generally perceived as riskier since their economic, financial, political and legal systems are less mature. However, commercial risk can be a significant issue in a mature market such as the United States, where bankruptcy laws are relatively lenient.

When these factors are taken together, it is easy to conclude that Canada's trade patterns are the result of positive factors – superior market access, strong U.S. purchasing power, good North American growth potential and manageable risks. The U.S. market is also highly diversified by sector and region, and has numerous other relative advantages – language, culture, distance, time zones – that we have been able to exploit. Diversification may be an attractive concept, and freer trade with other regions is highly desirable, but greater geographic trade diversification today would not necessarily improve Canada's capacity to create wealth.

Glen Hodgson
EDC's vice-president
and deputy chief economist

The views expressed here are those of the author, and do not necessarily reflect those of Export Development Canada.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Brenda Brown
brbrown@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Translation from *ExportWise* to *Exportateurs avertis* is led by Anne Tanguay.

Contributors
Karine Asselin, Stuart Bergman, Derek Baas, Peter Brake, Terri-Sue Buchanan, Ian M. Clarke, Jane Daly, Trish Edwards, Claudio Escobar, A. Ian Gillespie, Tabinda Haider, Toby Herscovitch, Glen Hodgson, Dennis Jones, Sandi Jones, Alison Lawford, Rod Lever, Fergal O'Reilly, Stephen Poloz, Paul Stothart, Steven Turner

EDC Advisory Board
Mark Bolger, Rosemarie Boyle, Donna Choquette, Marc Deschênes, Andrew Douglas, Judy Dudley, Ruth Fothergill, Linda Graupner, Glen Hodgson, Walt Hutchings, Suzanne Joberty, Alison Lawford, Diana MacGibbon

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

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Canada EDC

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC's Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC's Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

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For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

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Does your foreign buyer need a loan?

Perhaps EDC's Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's web site at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

For more information on these products visit **www.edc.ca/financing**

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What if my buyer demands a bond?

You can get bonds from either your bank (letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by giving you an insurance policy that will ensure the bank or surety company gets paid.

What if my buyer calls my bond even though I didn't do anything wrong?

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For more information on these products visit **www.edc.ca/bonding**

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Check out EDC's EXPORT MarketInsight, economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.

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Small Business

Can you afford not to get paid?

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Could you use more working capital?

With EDC's Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

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Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Emerging Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in new and emerging markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Africa's Bright Lights

Photo: Doug Millar Photography

BY **STEPHEN S. POLOZ**

Africa perpetually conjures up images of famine, civil war and disease. But amid the chaos and misfortune are some emerging success stories that represent good export sales and investment opportunities for Canadian companies.

Africa has always attracted global entrepreneurs to its shores, at [illegible] since the arrival of the Dutch and Portuguese traders in [illegible] century. Opportunities abound, [illegible] present-day perceptions [illegible] are that it remains a risky and difficult place to do business.

[illegible] clearly needs more economic growth if it is to deal meaningfully with [illegible] ies of poverty and disease. As part of the [illegible] African Action Plan aimed at [illegible] economic growth in Africa, [illegible] established the Canada [illegible] Fund for Africa. This fund [illegible] of $100 million from the Canadian government, and a matching [illegible] from the private sector, and [illegible] commercial principles by a [illegible] ctor manager.

[illegible] question is, where can one [illegible] in Africa? Where [illegible] economic and political risks [illegible] he prohibitive threshold? [illegible] practically, where will the large [illegible] projects worth bidding on [illegible]

Start with South Africa, which is fast [illegible] an economic powerhouse. The country's resource base has [illegible] positioned perfectly to capitalize on the [illegible] resumption of the global economic recovery in the second half of 2003. South African economic growth is expected to be around three per cent this year and four per cent in 2004. Meanwhile, the legacy of Nelson Mandela's vision of a post-apartheid "new South Africa" has been the emergence of a degree of political stability that will reinforce confidence and economic growth.

South Africa's renewed economic success is spilling over onto some smaller south African countries, such as Botswana, Namibia and Mozambique. Botswana's political stability stems from its record as Africa's longest continuous multiparty democracy, and the country has been named the least corrupt in Africa by the World Economic Forum. One of the world's largest diamond producers, Botswana offers a good investment climate and an average income that is even higher than that of South Africa. Economic growth should average three to four per cent for the next two years.

Namibia has a very similar economic structure to South Africa, and a positive investment environment. Economic growth should be in the range of four to five per cent this year and next. Mozambique, although much smaller, should do even better, with its more diversified economy experiencing growth of six per cent or higher. Indeed, the development of a trade corridor linking Mozambique's port of Maputo to the northern countries of southern Africa is expected to foster rapid infrastructure development in the area.

Another African bright light is Mauritius. Previously almost totally dependent on sugar production, the country has developed a textile-based export processing zone, a lively tourism sector and a vibrant offshore financial services sector. As a result of this diversification, per capita income is among the highest in Africa, and growth is expected to exceed five per cent this year and next. Given the stable political environment and good economic prospects, the country is attracting a steady flow of foreign investment, mainly from Asia and India.

Farther north, the economies of Egypt, Tunisia, Morocco and Algeria offer considerable business potential, with growth of four to five per cent projected for this year and next. In particular, Algeria's oil and gas sector is undergoing rapid development, which offers opportunities for sales of equipment and engineering services. There is also growing consumer demand for such housing-related Canadian goods as specialty wood products. Meanwhile, on the west coast, Senegal offers a very stable investment environment and projected economic growth in the six per cent range. Along with almost 30 other African countries, Senegal has a special connection to Canada through its membership in La Francophonie.

The bottom line? Africa remains a challenging place to do business. Business risks are high, but the potential rewards in some cases even more so. Political unrest in major problem areas will continue to dominate the headlines, along with the ongoing problem of HIV, making foreign investors understandably skittish. But beneath the surface lie some economic gems with opportunities for Canadian exporters. ■

Stephen Poloz (spoloz@edc.ca) is EDC's vice-president and chief economist.

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EDC Contacts

Western Canada

Linda Niro
Regional Vice-President

Vancouver
Tel: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Lewis Megaw
Regional Vice-President

Toronto
Tel: (416) 640-7600
Fax: (416) 862-1267

London
Tel: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel: (613) 597-8688
Fax: (613) 598-3811

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel: (709) 772-8808
Fax: (709) 772-8693

contactatlantic@edc.ca

International

Mexico
Marvin Hough
Regional Director for Mexico & Central America
Tel: (011) 5255-5387-9316
Email: mhough@edc.ca

Noé Elizondo
Regional Manager
Monterrey, Mexico
Tel: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel: (011) 55-11-5509-4320
Email: cescobar@edc.ca

Poland
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel: (011-48-22) 584-3240
Email: dgoresky@edc.ca

China
Alison Nankivell
Regional Director for China
Tel: (011) 86-10-6532-3536, ext. 3357
Email: anankivell@edc.ca

Ruth Fothergill
Vice-President
Corporate Outreach

Export Development Canada
Head Office • 151 O'Connor • Ottawa, Canada K1A 1K3
Tel: (613) 598-2500 • Fax: (613) 237-2690 • **www.edc.ca**

Does your buyer need money to buy your product or service?

If the answer is 'yes' check out just a few of EDC's lines of credit (LOCs). LOCs are a streamlined form of financing in which EDC lends money to an onlending foreign bank or buyer to facilitate the purchase of Canadian goods and services. Interest rates, repayment terms and other details are prearranged between EDC and the borrower, which speeds up turnaround time. Transactions supported under lines of credit are usually valued between US$50,000 and US$5 million. For a full list of EDC's LOCs, visit **www.edc.ca/loc**

ALGERIA

Sonatrach and its subsidiaries – US$50 million
M. K. Benaouda
Directeur Crédit et Relations Financières
SONATRACH
Djenane El Malik - Hydra
16035 Alger, Algérie
Tel: 213 21 54 95 75
Fax: 213 21 54 95 76

BRAZIL

Unibanco – US$25 million
Carlos Ferreira
Tel: 11 3097 1372
Fax: 11 3814 0528
carlos.ferreira@unibanco.com.br

SENEGAL

Industries Chimiques de Senegal – US$7.5 million
Monsieur Djibril Ngom
President and Director General
Km 18, Route de Rufisque
BP 3835, Dakar
Mao, Senegal
Tel: 221 834 06 74
Fax: 221 834 33 57

INDIA

Indian Railway Finance Corporation – US$10 million
Mr. S. Balachandran
Executive Director/Finance
Ministry of Railways, Government of India
& Managing Director, India Railway Finance Corporation Ltd.
416 Rail Bhavan
Raisina Road
New Delhi – 110 001, India
Tel: 91 11 2338 1568
91 11 2436 8066
Fax: 91 11 2436 9770
edfrm@rb.railnet.gov.in